

■ DECOLONIAL STUDIES PROGRAM

Resolving Energy Problems in Mainland BARMM

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Abstract

The Department of Finance (DOF) ordered the government-owned agency Power Sector Assets and Liabilities Management Corporation (PSALM) to cut off the power supply to Lanao del Sure Electric Cooperative, Inc. (LASURECO) and restrict Maguindanao Electric Cooperative, Inc. (MAGELCO) from providing electricity. LASURECO and MAGELCO failed to pay their combined outstanding debts, amounting to PHP 16 billion (Yang 2022). Compounding interest, financial mismanagement, alleged corruption among staff members of electric cooperatives (ECs), low efficiency in collecting from consumers, and high system loss due to illegal electrical tapping and politicizing are considered the root causes of the huge debt problems of MAGELCO and LASURECO. These are persistent issues that have plagued energy cooperatives for decades. Some policy proposals have begun to consider creating a condonation bill in Congress, paging the representatives of the affected districts, given that the reported “PHP 16 billion obligation is a carry-over from the past” and “has accumulated due to the leniency and laxity of the collecting agencies” (Lanto 2022, A4). Additionally, BARMM has the option to pay

the huge debt of the two ailing ECs, as well as to assume control by restructuring the management immediately. Lastly, since there are already local government-owned distribution utilities in the Philippines, it is also advised that viability of local government units (LGUs) taking over the electric distribution in their franchise area be studied.

Background

The people of Maguindanao and Lanao del Sur were on the verge of darkness after the 2022 national elections. Their electric power was about to be disconnected until the Marawi City Regional Trial Court granted them a reprieve by issuing a timely temporary restraining order (TRO) (Suson 2022). In addition, through an appeal by the Chief Minister of BARMM for the planned measure to be put on hold (Fernandez 2022), Maguindanao and Lanao del Sur were temporarily allowed to have electricity.

On 8 June 2022, the Department of Finance (DOF) ordered Power Sector Assets and Liabilities Management Corporation (PSALM) to suspend the access of Lanao del

¹ [INSERT BIONOTE HERE]

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Sur Electric Cooperative, Inc. (LASURECO) to the power grid and stop Maguindanao Electric Cooperative, Inc. (MAGELCO) from providing electricity. The cooperatives failed to pay outstanding debts, amounting to over PHP 16 billion (Yang 2022). The DOF maintains that PSALM should not provide MAGELCO and LASURECO with free electricity because (1) “it is not PSALM’s mandate to subsidize electricity expenses” and (2) “PSALM does not have the budget to do so” (DOF 2022).

Both electric cooperatives (ECs) struggled to make timely payments on their electricity bills. They could not settle their debts due to “alleged financial mismanagement” by the cooperatives and poor customer collection effectiveness. These issues led PSALM to take out additional loans to offset the deficit, according to DOF (Yang 2022). “To bring an end to the ballooning financial obligations of MAGELCO and LASURECO, the DOF has ordered PSALM to commence the curtailment for MAGELCO and disconnection for LASURECO starting May 26, 2022,” the department said (quoted in Yang 2022).

In the case of MAGELCO, the company only paid PHP 45.5 million of its PHP 147.2 million total electricity expenditures between December 2021 and April 2022 (Tomas 2022). MAGELCO had PHP 3.8 billion in unpaid government obligations as of 30 April 2022. Meanwhile, LASURECO’s unpaid electricity bills to PSALM, as of 30 April 2022, amounted to PHP 12.9 billion in overdue payables (Yang 2022).

Additionally, PSALM found that MAGELCO and LASURECO failed to remit universal charges (UC), totaling PHP 29 million and PHP 9.5 million respectively. These charges were collected from their customers (Yang 2022). Every month, grid operators and power distributors collect UCs and send them to PSALM (Yang 2022).³

Policy Issue

As both MAGELCO and LASURECO failed to settle over PHP 16 billion in unpaid electricity bills, their power distribution was curtailed and their supply was cut. This threatens to end Maguindanao and Lanao del Sur’s access to electricity.

Data and Findings

How Electric Cooperatives Work

ECs have been a crucial part of providing electricity to rural areas for more than 40 years. Often, only one EC actively operates in a single province. Therefore, consumers do not have many options regarding their electric service providers (Team Orange 2021). ECs are “private, non-stock, non-profit companies owned by their Member-Consumer-Owners” (Baguio Chronicle 2022). These are governed by a Board of Directors chosen by member-consumers. Likewise, the National Electrification Administration (NEA) is in charge of overseeing its management and operations. According to NEA, only seven of the 121 legally authorized electric cooperatives in the Philippines are in poor condition (Baguio Chronicle 2022). Four of the seven ill equipped ECs are from the BARMM region (Francisco 2021).

NEA classifies ECs as “ailing” or “red” when:

- They have negative net worth for the previous three years;
- They have accumulated 90 days of transmission and power supply charges in arrears;
- They are unable to provide electric service due to institutional or technical issues;
- They are unable to carry out their obligations as an electric distribution utility effectively; or
- They fail to meet other operational requirements (Flores 2022).

³ Section 34 of Republic Act (RA) No. 9136, or the Electric Power Industry Reform Act of 2001, calls for a “non-bypassable” universal charge (UC), defined by the Energy Regulation Commission (ERC). Consumers shall pay for this charge through their bills. PSALM receives these UCs from the National Transmission Commission (TRANSCO) and the grid operators. UCs shall be used for these purposes: (1) to pay for debts, (2) “missionary electrification,” (3) “the equalization of taxes and royalties,” (4) an “environmental charge” of PHP 0.0025 per kilowatt-hour (kW-h) and (5) “cross-subsidy” charges.

According to NEA, factors such as political meddling, armed conflict, cultural beliefs, challenging geographic conditions, and right-of-way issues, among others, might explain why ECs are not performing at par with the operational parameters (Baguio Chronicle 2022).

The Root Causes of the Debt Problem in Mainland BARMM

Amassed over many years and reaching billions of pesos, the debt is largely composed of interest payments that supposedly accumulated due to the collecting agency's "leniency and laxity" (Lanto 2022, A4). DOF, on the other hand, attributes the debt to poor financial management and ineffective consumer debt collection (Yang 2022). According to Sultan Ashary Maongco, general manager of MAGELCO, "[o]nly 16,000 out of 47,000 member-consumers or 34 percent are regularly paying their monthly electric bills" (quoted in Fernandez 2019). However, Datu Midpantao Midtimbang, Sr., a member of parliament of the Bangsamoro Transition Authority (BTA), claimed that some of the workers (i.e., collectors) of the agency mentioned above do not voluntarily submit the consumer fees in each barangay and municipality in Maguindanao (Magon 2022). He alleged that the said agency has a culture of pervasive corruption, as some of its employees engage in dishonesty to drive up the province's electricity costs. Additionally, Maguindanao residents expressed their anger towards MAGELCO on Facebook (Abdulrasid 2022). One of the posts complained about the faulty meter reading of kilowatt-hour (kW h) values by MAGELCO staff, since the consumer expected to pay less for electricity amid alternating blackouts in their location (Abdulrasid 2022).

LASURECO also cited system loss and collection issues as contributing factors to its debt problem. According to Kince Panondiongan, the executive assistant for LASURECO, the cooperative's "high system loss and low collection efficiency" exacerbates issues regarding payments. This is due to various "technical and non-technical" causes. One of these causes is the "consumer-residents' mindset," whereby "Maranaos own Lake Lanao, the source of energy, and should therefore not pay power bills" (Macabalang 2021). Additionally, illegal electric tapping is a widely used technique that has long hindered LASURECO's operations (Umelon 2014). Panondiongan also pointed out that power outages occurred in areas with electric lines in bad condition for 40 years.

As such, General Manager Nordijana Dipatuan-Ducol decided to start repairing the lines and convert them from single-phase to three-phase (Macabalang 2021).

However, former Energy Secretary Jose Rene D. Almendras addressed the issue of the growing debt of ECs in 2012 (Remo 2012). ECs, according to Almendras, frequently suffer from poor management and financial issues (Remo 2012). He asserts that some politicians shield EC board members who fail to make timely payments to power-generation companies, or award donations and incentives that were not merited (Remo 2012). Power cooperatives have occasionally been utilized to influence voters within a franchise region (Remo 2012). Almendras regards debt accumulation to be a critical issue, as it endangers the survival of ECs, disadvantaging affected consumers, and prevents possible investments in the power generation sector (Remo 2012).

National Government and BARMM Actions

Ministry of Interior and Local Government (MILG) Minister Naguib Sinarimbo referenced Finance Secretary Sonny Dominguez, who declared "an 'open' position on the call for the writing off of existing power cooperatives' standing debts." However, no subsequent meetings were held because of the COVID-19 pandemic, which became the national government's priority in terms of time and resources (Macabalang 2021).

However, as of April 2022, the national government's debt had increased to a record PHP 12.76 trillion due to the COVID-19 pandemic response and significant infrastructure-related loans (Rivas 2022). Due to the government's enormous debt burden, it was impossible to clear off the debt of the affected electric cooperatives.

Ahod Ebrahim, the chief minister of Bangsamoro, outlined the regional government's actions concerning the disconnection and curtailment of LASURECO and MAGELCO in a letter dated 7 June 2022 (Fernandez 2022). Ebrahim appealed to PSALM to postpone the power cut, because it would have a negative effect "on the political, economic, and social situations within the concession of LASURECO and MAGELCO, as well as in the Bangsamoro Autonomous Region" (Fernandez 2022).

Ebrahim also noted one component of addressing the financial woes affecting power distribution companies: “the creation of a new distribution entity that will mirror the services being offered by LASURECO and MAGELCO. This entity may be in place within the transition, or after the regular parliamentary elections in the BARMM in 2025” (quoted in Fernandez 2022). This measure is supported by Article XIII, Section 36 of the Bangsamoro Organic Law (BOL), which provides that the Bangsamoro Government may establish new entities for the generation and distribution of electricity, as well as support current electric cooperatives (Fernandez 2022).

Analysis

Compounding interest, financial mismanagement, alleged corruption among staff members of ECs, low collection efficiency to consumers, high system loss due to illegal electrical tapping, and politicizing are some of the root causes of the huge debt problems of MAGELCO and LASURECO. These are persistent issues that have plagued ECs for decades. A thorough examination of the root causes of the present issues is necessary to offer a firm solution to resolve the problem and prevent future occurrences. The Bangsamoro Parliament has the authority to look into MAGELCO and LASURECO in aid of legislation. If the BARMM government has the necessary resources, both financially and humanly, they can expedite the examination of the viability of buying out the ECs.

MAGELCO and LASURECO can engage in dialogue and information dissemination at the village and town levels in Maguindanao and Lanao del Sur to increase collection efficiency and mitigate line losses. Establishing a task force to step up operations against illicit electric wiretapping and tampering will help minimize system losses and improve revenue collection. Strong support from the local government units within MAGELCO and LASURECO’s service areas is also essential.

Due to the enormous debts incurred by the national government to respond to the COVID-19 pandemic and infrastructure-related loans, the Duterte administration is no longer amenable to pardon the outstanding debts of power cooperatives headquartered in the BARMM.

Policy Options

- One of the possible policy options is to petition the representatives of the affected districts to file a condonation bill. The PHP 16 billion debt, an accumulation of past EC administrations’ outstanding payments, grew because of the “leniency and laxity” of the ECs (Lanto 2022, A4). The BTA can also offer support by adopting “a resolution that expresses the collective sentiments of the stakeholders” (Lanto 2022, A4).
- ECs may request that their liabilities be paid in phases. This restructuring may help ease the burden on the ECs. (Lanto 2022, A4)
- The BTA may explore the feasibility of local government units (LGUs) assuming control of electric distribution in their franchise areas, since there are existing local government-owned distribution utilities in the Philippines.
- BARMM might consider acquiring, taking over, and managing LASURECO and MAGELCO. Given the urgency of the situation, BARMM has to implement changes in the cooperatives’ organizational structures as soon as possible. Once the situation has stabilized, BARMM may consider selling it to private businesses since, as experience has shown, the government “is a poor manager” (Lanto 2022, A4).
- To provide concrete remedies and ensure that the issue does not recur, more research is needed to identify the true causes of the debt issues faced by the electric cooperatives established in BARMM.
- There are several proposals to purchase cooperatives and open the door for private businesses with specialized knowledge in management (Lanto 2022, A4). However, private firms may choose to focus on profiting from cooperatives while “being insensitive to social responsibility” (Lanto 2022, A4).

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