



NATIONAL POWER CORPORATION

Role of the Board in Corporate Strategy – 2023

National Power Corporation's primary mandates include Enhanced Missionary Electrification, Watershed and Dams Management in support of Power Generation and Operation and Maintenance of the Remaining Power Generating Assets in the Main Grid. Pursuant to these mandates and as provided under Section 5.b of the NPC Corporate Governance Manual, the National Power Board is responsible for providing policy direction, monitoring, and overseeing the implementation of the corporate strategies and Management actions.

The Governing Board monitors and oversees the implementation of the corporate strategy through the annual review and approval of the strategic plan, corporate operating budget, corporate performance scorecard targets and accomplishments among others.

On 31 January 2023, as a financing strategy to fund the outstanding fuel payables of SPUG power plants and barges amounting to Php 1.112 Billion, the Governing Board reallocated the unobligated 2017 and 2019 National Government (NG) subsidies for transmission line and substation projects, and endorsed to the Department of Budget and Management (DBM) the 2023 Work and Financial Plan to support the release of the Notice of Cash Allocation (NCA) in favor of NPC. Four months after, the Governing Board reviewed and endorsed the *supplemental* Work and Financial Plan of NPC covering the projects and/or activities funded from prior years' subsidies in the amount of Php 1.623 Billion. Thus, the overall corporate work and financial plan for 2023 programs paid by the National Government was eventually set at Php 2.735 Billion by May 2023.



Moreover, empowered by DOJ Opinion No. 20, s. 2022 dated 23 September 2022, the Governing Board approved the Short-Term Loan Line (STLL) of National Power Corporation with Land Bank of the Philippines (LBP) in the amount of Php 5 Billion to fulfill its missionary electrification function pursuant to its Charter and the mandate established under Section 70 of the Electric Power Industry Reform Act (EPIRA).

On 10 February 2023, the Governing Board assessed the financial state of the Corporation as it probed the financial statements and other financial reports for 2022. It also authorized the restatement of the FY 2021 balances essentially due to the change in the revenue recognition of UCME, adjustments related to input VAT and those related to capitalizable operating expenses and change in the presentation of New Power Providers (NPPs) share in the UCME.

On 08 March 2023 and 01 December 2023, the Governing Board probed the implementation of the ten-year Integrated Watershed Management Masterplan of NPC before it authorized the filing of the Plan 19 petition amounting to Php 352,649,679.67 and the Plan 20 petition amounting to Php 372,968,139.97. The said petitions, once authorized by the ERC for collection, are expected to provide funds for the management, protection, rehabilitation, and reforestation programs for the watershed areas managed by the corporation. The Governing Board also approved the filing with the ERC of the Petition for the Basic Universal Charge for Missionary Electrification (UCME) for CY 2024 amounting to Php 30,188,851,541.29, and the proposed Benchmark Tariff for the Photovoltaic Mainstreaming (PVM) Projects of NPC.

On 11 May 2023, the National Power Board, in recognition of the short and medium-term financing strategy of NPC, approved the obtention of an additional credit line with LBP in the amount of Php 10 Billion to ensure that the provision of power in the off-grid areas is not compromised. Moreover, as a strategy to improve the financial management and the procurement process in NPC, the Board approved the Implementation Plan for the Corporate Information



System (CIS) Project of NPC – Phase 1 (Development of the Financial Management Information System [FMIS] and the Logistics Management Information System [LMIS]).

On even date, the Board approved the FY 2023 Realigned Corporate Operating Budget (COB) of NPC amounting to Php 31.185 Billion, and an augmentation in the amount of Php 16.279 Billion. The corporate appropriation was brought to the Php 47.464 Billion level as a result of the re-assessment of the corporation's requirements, programs and activities and their implementation schedules and targets; and in consideration of recent developments such as the revised sales and generation forecasts, updated fuel prices, revised tariff/universal charge and availability of funds.

The National Power Board reviewed the execution of the corporate plans, programs and targets embraced by the 2022 Performance Scorecard, and endorsed for the GCG's validation, the performance rating of 93.56% together with the justifications for factors outside the control of the Management that affected the completion of transmission and substation projects and the revisited EBITDAS margin target following the unprecedented financial challenges that NPC has to contend with due to the spike in the prices of petroleum products.

In addition, the Board underscored the submission of all corporate contracts to the OGCC and/or the OSG for review prior to execution as a strategy to help manage the legal risks and exposures of the corporation.

The Governing Board reviewed the targets, plans and programs and the proposed execution of corporate strategies for the major mandates of NPC for 2024 before it endorsed to the DBM a Corporate Operating Budget amounting to Php 42.647 Billion. Considering that NPC also proposed the engagement of the private sector in accelerating the hybridization of power generating capacities in the missionary areas, the Board directed that the budgetary allocation for the Renewable Energy Power Purchase Agreement (REPPA) is ring-fenced as a sub-item for fuel expenditure such that if the REPPA takes off, the parked allocation may be utilized for REPPA-related disbursements.



As an input in the development and finalization of the Missionary Electrification Development Plan (MEDP), the Board reviewed the 2023-2027 Missionary Electrification Plan (MEP) which laid down the electrification program for the off-grid areas. Essentially, the Governing Board authorized among others, the targeting of 25.14 MW additional power generation capacities, 34.7920 MWp renewable energy (photovoltaic) capacities, 357.40 circuit kilometers of transmission lines, 105 MVA substations and 172.797 circuit kilometers of distribution lines by the end of the Marcos presidency.

On 31 May 2023, the Governing Board set the policies on the lease of generating sets while NPC pursues the use of renewable energy in the missionary areas. The Board also pushed for the aggressive hybridization and integration of RE technologies in the corporate operation to cut on the costs associated with diesel power plant operation. The Board also considered an exploratory study on securing the authorization of the Energy Regulatory Commission (ERC) on automatic adjustment mechanism to recover the fuel expenses of SPUG. It also passed upon the project management reports under the Access to Sustainable Energy Program (ASEP) and the way-forward strategies for the proposed rehabilitation of the Agus-Pulangi Hydroelectric Power Complex (APHC).

On 30 June 2023, the National Power Board reviewed the FY 2023 cashflow position of the corporation, and probed into the initiatives that aimed at improving the overall operation of SPUG namely: Spare Parts Management Program (SPMP), Fuel Rate Improvement Program (FRIP), Maintenance Management Program (MMP) and Standardized Troubleshooting Guide. To further improve power plant efficiency, the Board directed the Corporate Affairs Group (CAG) to set a heat rate cap in consultation with ERC that is attuned to off-grid operations.

To support the financing needs of NPC, on 25 July 2023, the Governing Board approved the filing with the ERC of the 24th Generation Rate Adjustment Mechanism (GRAM) amounting to Php 3,579,616,902.22 and the 24th Incremental Currency Exchange Rate Adjustment (ICERA) amounting to Php



18,567,195.90. However, the Board proposed that the recovery period for the GRAM and ICERA be set at 48 and 12 months respectively to mitigate the impact to consumers once the adjustments are authorized for collection by the ERC.

To properly strategize the operations protocol, the Board discussed the working directions for the APHC rehabilitation and the proposed concession of the operation and maintenance of the complex through the PPP modality. Moreover, to accelerate energy transition in off-grid areas, the Board authorized the creation of a Technical Working Group (TWG) on Accelerated Hybridization Program (AHP). Eventually, on 01 December 2023, the Governing Board approved the implementation of the AHP for the pilot hybridization clusters to help lessen NPC's dependence on fossil fuels. Through the program, the NPC-SPUG is authorized to procure services from the Renewable Energy Power Producers (REPPs) that will construct and operate their own renewable energy facilities and supply power to their covered off-grid areas as a supplement or replacement to NPC's diesel genset operation.

On 01 December 2023, the corporate strategies and targets of the corporation mainly affecting main grid operation, dams management and IPP contracts management were revisited by the Governing Board. The Board also ascertained the major deliverables embraced by and the assumptions used for the MOA-COB level of Php 4.53 Billion, and approved the prioritization of the Taytay-El Nido 69 kV Transmission Line Project in 2024 and the implementation in 2025 of the Alimanguan-San Vicente Transmission Line Project.

To help enhance climate resilience in the Philippines, the Board approved the development of the Angat Dam Operation System which among others, targets the establishment of a flood forecasting and inundation model which ultimately improves the decision-making process to optimize the utilization of the impounded water in the Angat reservoir. The Board also endorsed the project concept paper to the DOE, NEDA-ICC and DOF-IFG in connection with the grant application with the Republic of Korea.



On 21 December 2023, the Board considered the results of the CY 2022 Corporate Governance Scorecard assessment whereby NPC received an outstanding rating from the GCG. The Board also expressed its collegial commitment of improving the corporate governance practices throughout the organization. The Governing Board also ensured that the fuel requirements of NPC to sustain SPUG operations are adequately met with the award of the contract for the oil-based fuel for off grid power plants and barges.

For the year 2023, the Corporation was still reeling from the financial difficulties encountered from the previous year because of the surge in the prices of petroleum products worldwide. However, due to prudent spending of the financial resources and the implementation of aggressive operational and crisis management strategies, NPC averted the worst-case scenario of letting the islands go dark. Tight financial and operational controls were in place as the corporation manages its borrowings and the fund infusion from the National Government, and as it lobbies with the industry regulator to authorize the tariff adjustments expected to provide the corporation the wherewithal to sustain its operations.

In line with its oversight function over the operation and management of the Corporation, the Board and its standing committees set the standards, policies and guidelines that ensured NPC's long-term success, viability and strength, and sustained competitiveness. These standards and directives were provided all year round with the review and approval of the programs and projects that affect corporate performance, such as the procurement and management of fuel, acquisition of goods, services and infrastructure projects, tightened contract implementation and management and administration of special undertakings in partnership with the private sector and the national and local government.

As a testament to the firm commitment of the corporation in providing service to the Filipino nation, the Governing Board continually ensured that NPC makes its mark in the Philippine electric power industry especially in the light of the call of the Marcos administration to provide total electrification by 2028.

