

PUBLIC UTILITY GOVERNMENT CORPORATIONS

THE operation and state control of five public utility corporations in the Philippines engaged in water, sewerage, electricity, public transport and gas services may be better appreciated and rationalized by analyzing their financial condition and results of operation. As a whole, their assets, liabilities and networth as of June 30, 1973, as well as their income, expenses and net profit for the period then ended are shown below.

As of June 30, 1973, the total accounts receivable of these five public utilities reached the staggering amount of ₱107.87 million. It was noted in this connection, however, that a big portion of their total production was unbilled. Expenses for personal services amounted to ₱66.06 million or 29.43% of their total expenditures. The public utilities failed to pursue their long-range projects due to lack of funds. There is a dilemma as to

A. Financial Condition

<i>Corporations</i>	<i>Assets</i>	<i>Liabilities</i> (In Millions)	<i>Network</i>
Philippine National Railways (PNR)	₱ 548.60	₱ 49.92	₱ 498.68
National Power Corporation (NPC)	1,344.56	685.79	658.77
Manila Gas Corporation (MGC)	33.56	7.65	25.91
Metropolitan Waterworks and Sewerage System (MWSS)	655.30	649.12	6.18
Communications and Electricity Development Authority (CEDA)	7.73	1.46	6.27
	₱2,589.75	₱1,393.94	₱1,195.81

B. Results of Operation

<i>Corporations</i>	<i>Income</i>	<i>Expenses</i> (In Millions)	<i>Net Income</i>
Philippine National Railways (PNR)	₱ 41.46	₱ 43.74	₱(2.28)
National Power Corporation (NPC)	129.20	101.39	27.81
Manila Gas Corporation (MGC)	22.05	20.12	1.93
Metropolitan Waterworks and Sewerage System (MWSS)	48.62	57.88	(9.26)
Communications and Electricity Development Authority (CEDA)	2.76	2.33	.43
	₱244.09	₱225.46	₱18.63

whether or not public utilities should be managed by private companies or local governments or by the National Government. (Appendices D-1 and D-2)

The establishment and management of public utilities is not just a recent concern of the Philippine Government. For example, waterworks system in Manila began on September 11, 1943, and was taken over by the National Government on July 1, 1919 under Act No. 2332. The Manila Gas Corporation started operation on September 27, 1912 under a franchise granted under Act No. 2039 of the Philippine Legislature. The PNR started its operation under the Philippine Government on January 8, 1917. The National Power Corporation was created as a public corporation under Commonwealth Act No. 120 which took effect on November 3, 1936. A relatively new public utility corporation is the Communications and Electricity Development Authority which was established in 1957 with the passage of Republic Act No. 2046.

Today, when urbanization has reached a stage little conceived of by the national officials of 1912, the demand for increased services of a higher standard and a broader coverage under the New Society is more compelling than ever before. Particularly, this is a pressing problem to national officials in this country that is trying within a few short years to catch up with the decades of development which have already taken place elsewhere.

Among many reasons why the National Government engages in control of public utilities, two are prominent: (1) that for funding reasons (certain vital services such as water, sewerage, electricity, public transport and gas could be conveniently provided by the National Government); and (2) that such services could not be made subject to what is regarded as the normal regulative force of free competition, but require nationalization under strict public control.

One of the more obvious justifications for nationalization is the unavailability of private and local government capital or their unpreparedness to undertake the services. Moreover, there is always the natural tendency on the part of the private companies to give every regulation an interpretation most favorable to themselves and wherever possible, to evade controls that they find disagreeable. More seriously, the fact that these private companies are in business exclusively for profit sometimes inhibited the expansion or improvement of the services they are providing. The foregoing concepts, however, are without prejudice to public ownership or to the municipalization of control or operation of public utilities. Service orientation and the absence of the usual political bickerings of the old society may ultimately lead to the turning over of control and operation of certain public utilities to local governments. This course of action could be a boon to the people in the rural areas.

Meanwhile, to strengthen the financial footings of the five existing public utilities under the national government control, management should be made to realize the public nature and purpose of these enterprises. There is an immediate necessity to collect their huge accounts receivable, to systematize their billing in order to preclude the accumulation of unbilled production and to conduct a sustained study on the wisdom and practicability of transferring control and operation of utilities in rural areas to local governments.

It will be noted that the over-all current ratio (ratio of current assets to current liabilities) of these government public utilities as of June 30, 1973 was .99 to 1 or less than 100% coverage. In absolute terms, the amount of total current assets of P315.54 million was less by P3.85 million than the total current liabilities of P319.39 million. This adverse condition could be attributed principally to the MWSS whose current assets totalled P106.92 million compared to its total current liabilities of P217.37 million at the end of fiscal year 1972-73. The MWSS had current liabilities of more than twice its current assets. This is an indication of the poor debt-paying ability of the company. On the whole, however, the operation of the System has improved over that of the previous fiscal year. The other public utilities, however, had more than 100% coverage of their current liabilities. The current ratio of the PNR, for instance, was 2.94 to 1, that of the NPC was

1.83 to 1, that of the MGC was 1.46 to 1. (Appendices D-1 and D-3)

Among the government public utility corporations, the PNR, the CEDA and the MGC reflect apparently satisfactory ratios of owned capital (net-worth) to borrowed capital (total liabilities) in their balance sheets, being 9.99 to 1, 4.29 to 1 and 3.39 to 1, respectively. This means that the companies are relying more on the investments of stockholders and the earnings of the companies rather than on borrowings to finance their operations. This, however, is not true in the case of the NPC and the MWSS whose total liabilities exceeded their net-worth. (Appendix D-3)

Generally, fixed assets of these corporations registered the highest percentage to total assets (78.19% in 1973 and 75.9% in 1972). These rather big percentages are understandable in the case of public utilities whose biggest investments are in fixed assets. The margin of protection of long-term creditors may be considered sound enough, the over-all fixed assets being P2,024.75 million as compared to the total long-term liabilities of P1,019.74 million or a ratio of 1.99 to 1. (Appendices D-1 and D-3)

Over-all net income represented 7.63% of total income. The total costs and expenses of 92.37% (including provision for income tax) under the public utility group are rather big and among the expense items, the total for personal services, representing 29.43% of total costs and expenses, is

the biggest followed by interest expenses representing 23.08%. These are indications that there may be a need to restudy personnel policies and loaning operations with a view to reducing costs of personal services and interest expenses. The companies incurring the biggest percentages in these expense

items are the Philippine National Railways for personal services (72.15%) and National Power Corporation for interest expenses (33.51%). (Appendix D-2)

A discussion of each of the public utility corporations follows.

**GOVERNMENT PUBLIC UTILITY CORPORATIONS
NET RESULTS OF OPERATIONS
FISCAL YEARS 1972 AND 1973**

