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May 5, 2005

MR. JESUS P. FRANCISCO

President, MERALCO
Pasig City

Thru: **MS. IVANNA G. DELA PEÑA**
Head, Utility Economics

Dear Mr. Francisco:

Warm greetings!

Thank you for your reply to our prior inquiries (March 28, April 06 and April 12, 2005) through Ms. Dela Peña's letter dated April 28, 2005. We do understand the delay and appreciate the work constraints MERALCO has to deal with, under present circumstances

The Annexes (Exhibits 1 to 7) are instructive, as far as the average generation rates from various generation sources (NPC and MERALCO IPP) are concerned. We now have a better appreciation of the generation pass-through costs and the power procurement dynamics of MERALCO.

If you will bear with us further, may we seek additional clarification on the following matters:

1. In relation to Exhibit 2, and the P 4.1767 pkWh average generation cost for Feb. '05, which is P 0.4005 pkWh lower than the P4.5772 pkWh average generation cost for Jan. '05, what would have been the pass-through generation cost to MERALCO customers if the entire generation requirement of MERALCO were procured from NPC at P 4.0049 pkWh in Jan. '05 and P 4.000 pkWh in Feb. '05?

Couldn't we have saved P 0.5723 pkWh in Jan. '05 (P 4.5772 pkWh – P 4.0049 pkWh) and P 0.1767 pkWh in Feb. '05 (P 4.1767 pkWh – P 4.0000 pkWh), if MERALCO procured its electricity supply at the least cost in the market?

Related to the foregoing, what was MERALCO's total demand during that time? Did NPC have the capacity to meet that demand, at the Ave. Generation Cost cited in your Exhibit 2?

2. What is the difference between the "fixed cost xxx IPPs' billing to MERALCO" and "NPC's pricing on a straight energy basis" cited in the first paragraph on page two of your letter? At which point do the MERALCO IPP cost based on its level of offtake and NPC straight energy selling rate intersect, to arrive at the "optimized dispatch" referred to in your letter? What are the corresponding capacity/market shares of the MERALCO IPPs – Sta. Rita, San Lorenzo, QPL?

When you cite "another 7.1 centavos per kWh" reduction, this is a reduction from what level of generation cost?

Looking at Exhibit 3, if it is P 0.0709 pkWh, from P 4.1767 pkWh, resulting in P 4.1058 pkWh, the savings is illusory, as it is hardly enough to compensate for the expensive MERALCO IPPs', which is P 4.3247 pkWh on actual and P 4.1807 under simulation, versus NPC's P4.0000 pkWh, and P 4.0045, respectively.

The problem, we fear, is not the level of dispatch but the pricing, where MERALCO by-passes the least-cost supply in favor of more expensive power.

3. At the time that we would have attained the price levels as estimated/demonstrated in Exhibits 6 & 7 (NPC P 4.6090 / P 4.6502 versus MERALCO IPP P 4.4853 / P 4.2237), then MERALCO should drop NPC supply and procure entirely from its least-cost IPPs.

In the meantime, could there be settlement of cost discrepancies arising from power procurement inimical to consumer interest, without our having to take recourse to judicial process? Perhaps such a magnanimous gesture can be the initial step towards establishing the mutual trust under which we can work together towards consumer empowerment in the electricity industry.

Meanwhile, on the 25-year amendment to Meralco's PPA with First Gas, we are interested, too, in the approval process. And we look forward to the Commission setting the hearing on the matter. Given the on-going shifts in

the industry, we are confident that the EPIRA promise of power of choice for the consumers is amply covered in the amendments.

As to the unbundled rates, we do wish the EPIRA and ERC had kept the original spirit of unbundling-which was to be revenue-neutral and, as emphasized by the then ERB, not to be an occasion for rate-increase, to avoid confusion. Unfortunately, EPIRA and ERC saw otherwise. Thus, the presentt judicial review

In any case, it is our hope that over time, MERALCO and other utility customers will see the light to the true cost of power, and a fair return to its providers. If MERALCO will leverage its public communications and advertising pesos for balanced consumer education, we would be honored to process and address electricity and power issues with you or any of your staff.

Again, thank you for your exhaustive and authoritative reply, particularly the annexes and the simulations. And we hope this follow-through will merit similar attention.

Thank you and God Bless!

Very truly yours,



PETE L. ILAGAN

President

Cc: ERC Chairman
ERC Commissioners
DOE Secretary
NPC Board of Directors
JCPC Members

NPC RATE

Luzon Rate Prior to NPC Rate Increase		2.5736
ERC P.A. Sept. 3, 2004 Order		1.2318
DAA 3rd Gram June 9, 2004		0.1085
Franchise Benefits		0.0245
Generation Charge, Sept, 2004	Php	3.9384

NASECORE Computation

FEBRUARY			
	A	B	
	Rate	% Share of Supply	
NPC	3.9384	60.88%	2.3977
MERALCO IPP	5.4679	39.12%	2.1390
	Average		4.5367
<i>MERALCO ADJUSTMENTS</i>	Other Adjustments		-0.0276
	Deferred Acctg Adj		0.0929
	Deferred PPA		0.1328
	Generation Charge		4.7348

MERALCO Computation

From Meralco's Exhibit 2 Column 1

FEBRUARY			
	A	B	
	Rate	% Share of Supply	
NPC	4.0049	60.88%	2.4382
meralco IPP	5.4679	39.12%	2.1390
	Average		4.5772
<i>MERALCO ADJUSTMENTS</i>	Other Adjustments		-0.0276
	Deferred Acctg Adj		0.0929
	Deferred PPA		0.1328
	Generation Charge		4.7753

Difference P0.040

NASECORE COMPUTATION

MARCH			
	A	B	
	Rate	% Share of Supply	
NPC	3.9384	45.59%	1.7955
meralco IPP	4.3247	54.41%	2.3531
	Average		4.1486
<i>MERALCO ADJUSTMENTS</i>	Other Adjustments		-0.0249
	Deferred Acctg Adj		0.0929
	Deferred PPA		0.1560
	Generation Charge		4.3726

EXHIBIT 2 Column 2 – MERALCO

MARCH			
	A	B	
	Rate	% Share of Supply	
NPC	4.0000	45.59%	1.8236
meralco IPP	4.3247	54.41%	2.3531
	Average		4.1767
<i>MERALCO ADJUSTMENTS</i>	Other Adjustments		-0.0249
	Deferred Acctg Adj		0.0929
	Deferred PPA		0.1560
	Generation Charge		4.4007

Difference P0.0281

NASECORE COMPUTATION

APRIL			
	A	B	
	Rate	% Share of Supply	
NPC	3.9384	44.94%	1.7699
meralco IPP	4.4721	55.06%	2.4623
	Average		4.2323
<i>MERALCO ADJUSTMENTS</i>	Other Adjustments		-0.0224
	Deferred Acctg Adj		0.0929
	Deferred PPA		0.1328
	Generation Charge		4.4356

Exhibit 6 Column1 - MERALCO

APRIL			
	A	B	
	Rate	% Share of Supply	
NPC	4.1394	44.94%	1.8602
meralco IPP	4.4721	55.06%	2.4623
	Average		4.3226
<i>MERALCO ADJUSTMENTS</i>	Other Adjustments		-0.0224
	Deferred Acctg Adj		0.0929
	Deferred PPA		0.1328
	Generation Charge		4.5259

Difference P0.0903