

No regulatory audit of PDUs, NGCP, NPG

September 07, 2010 05:39:00

Philippine Daily Inquirer

THIS IS a rejoinder to the letter titled “Why ERC adopted the PBR.” (Inquirer, 8/24/10)

In explaining the Performance-Based Regulation (PBR) rate-setting methodology, Energy Regulatory Commission Chair Zenaida Ducut cited Sec. 43 (f) of the Electric Power Industry Reform Act (EPIRA), which starts with the phrase, “In the public interest.”

If PBR does serve the public interest, rates should be going down as a result of depreciation (which allows the utility to recover its actual capital investment in assets put to actual service) and their increasing [revenues](#) (which comes from the steady growth in its sales in kilowatt-hours).

But under PBR, the ERC allows the costs of utility expansion projects to be passed on directly to consumers through rate increases; thus, the owners who should be the ones to infuse fresh capital no longer have to. Is this the way the ERC serves public interests?

The law clearly guarantees the National Grid Corp. of the Phil. (NGCP, formerly TransCo) and private distribution utilities (PDUs) like Meralco, recovery of capital (costs) and return on capital (with 12-percent cap) to enable them to operate viably, thus making their business operations risk-free through ERC-approved rates.

In addition, this guarantee of cost recovery to ensure the quality, reliability, security and affordability of electricity supply is meant to assure consumers of the operational efficiency of those power utilities. Thus, there is no reason why a utility should be inefficient.

However, recovery of costs requires the tedious process of a regulatory [audit](#), either by the ERC or the Commission on Audit, to determine that the costs incurred in the operations of the business are just and reasonable and that the return does not exceed the 12-percent cap. From this process, fixing a just and reasonable rate becomes possible.

It should be noted that a “regulatory” audit checks if rates are just and reasonable, while a financial audit checks if every centavo is accounted for.

Understandably, regular corporations, which do not enjoy the guarantee of a risk-free business, struggle to operate within their approved operating budget which, after a year’s operation, is meticulously and tediously audited for any overspending and misspending. We see this management practice as a tool to encourage and institutionalize operational efficiency.

From 2003 to 2005, the National Power Corp. (NPC), TransCo and the 140 PDUs in the country were given rate increases under the unbundling of rates mandate of the EPIRA.

Except for the Supreme Court-directed COA audit of Meralco, the ERC complied with the audit but only for 2004 and 2007. NPC, TransCo and Meralco have never been subjected by ERC to regulatory audit despite their “motu proprio” power under the EPIRA.

Certainly, ERC is not serving public interests under the PBR.

—PETE L. ILAGAN
President, NASECORE

Copyright 2010 INQUIRER.net and content partners. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.