



National Association of Electricity Consumers for Reforms, Inc. (NASECORE)

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HON. ZENAIDA CRUZ-DUCUT

Chairperson, Energy Regulatory Commission
16th Floor, Pacific Center Building
San Miguel Avenue, Pasig City

Dear Chairperson Ducut:

Greetings! This pertains to our study of MERALCO's financial statements showing an accrued over collection of **₱14,202,390,500.00** from June 2003 to December 2008.

Our finding is based on this Honorable Commission's *Decision* dated 20 March 2003 granting MERALCO's revenue requirement of ₱20,103,178,000.00 (net of purchased power cost) in the latter's rate unbundling application.¹

However, this Honorable Commission's *Order* dated 30 May 2003 modified MERALCO's total rate base to ₱76,838,084,457.00. Furthermore, MERALCO's return was increased from 12% to 15.5%.

With the change in MERALCO's rate base and return, NASECORE's computation reveals a higher revenue of ₱22,969,542,000.00 as shown in the table below:

COMPONENTS OF REVENUE REQUIREMENT	Decision dated 20 March 2003 with 12% RORB	Order dated 30 May 2003 with 15.5% RORB
Payroll	2,861,570,000.00	2,861,570,000.00
Operation & Maintenance	5,399,043,000.00	5,399,043,000.00
Depreciation & Amortization	3,388,306,000.00	3,388,306,000.00
Taxes	108,520,000.00	108,520,000.00
Return on Rate Base*	9,043,539,000.00	11,909,903,020.00*
Other Revenue Items	(697,800,000.00)	(697,800,000.00)
TOTAL	₱20,103,178,000.00	₱22,969,542,000.00

* $P76,838,084,457 \times 15.5\%$

¹ ERC Case No. 2001-646/900

To determine if MERALCO was getting its ERC-approved annual revenue requirement, NASECORE studied MERALCO's 2004-2008 annual reports and compared the allowed revenue requirements versus actual revenue generated by MERALCO as shown in the table below:

Year of operation	MERALCO Actual Revenue **	Unbundling Decision Dated 30 May 2003	Over/(under) recoveries
2008	26,270,000,000.00	22,969,542,000.00	3,300,458,000.00
2007	26,036,000,000.00	22,969,542,000.00	3,066,458,000.00
2006	25,619,000,000.00	22,969,542,000.00	2,649,458,000.00
2005	25,017,000,000.00	22,969,542,000.00	2,047,458,000.00
2004	24,510,000,000.00	22,969,542,000.00	1,540,458,000.00
June-Dec2003	14,997,000,000.00	13,398,899,500.00***	1,598,100,500.00
TOTAL OVER RECOVERIES			P14,202,390,500.00
*net of purchased cost			
** Distribution, Supply and Metering Revenue only			
*** Equivalent to proportionate of 7 months only (June to December 2003)			
Sources: MERALCO Audited Financial Statement submitted to ERC MERALCO Unbundling Decision and Order			

The table above shows that MERALCO has an over collection in the amount of P14,202,390,500.00. Unless we are wrong and we believe we are not, the silence of the Honorable Commission on this over collection could only be the result of ERC's failure to study and review MERALCO's reportorial submissions, giving MERALCO undue advantage to the detriment of trusting consumers. Nonetheless, our findings clearly conform to the COA audit report of MERALCO overcharges in test years 2004 an 2007.

It is worth noting that the table above does not show yet the expensive and unnecessary pension fund and other fringe benefits for MERALCO'S officers and employees, the PCIB special account, fitness center and sports related expenses, expensive and unnecessary advertising expenses, funding allocation which benefited the entire Lopez group, voluntary welfare assistance to employees and retirees, i.e., assistance due to death and calamities, oratory services, memorial plans, especial retirement allowance, civic and charitable contributions, longevity bonus, depreciation expenses on fully depreciated assets and those excluded in the rate base.

All of these are contained in the COA audit report of disallowances of MERALCO's yearly expenses in the average amount of P3.197 billion transmitted to ERC on November 12, 2010.

In light of MERALCO's over collections, we hope the Honorable Commission will exercise its *motu proprio* powers under the EPIRA and direct MERALCO to immediately put in an escrow account the said over collections and penalize MERALCO for abuse of its market power.

Further, we hope this Honorable Commission will not simply advise NASECORE to file a more formal complaint with the Commission because that will be an abdication of this Commission's functions of reviewing and evaluating submissions of the utilities to determine compliance and that the rate it granted MERALCO was just and reasonable. Should the Commission fail to favorably act on the information we voluntarily provided, we will be constrained to seek other relief.

If the Honorable Commission feels that this refund may result in the unviable operations of MERALCO, we will most welcome the idea of having this amount treated as consumer equity so that the amount may stay with MERALCO.

Thank you.

Very truly yours

PETE L. ILAGAN
President