



National Association of Electricity Consumers for Reforms

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HON. ZENaida G. CRUZ-DUCUT
Chairperson, Energy Regulatory Commission
Pacific Center Building, San Miguel Avenue
Ortigas Center, Pasig City

Dear Chairperson Ducut,

Greetings!

Thank you for your letter dated 31 March 2010 which we received on 08 April 2010, in response to our letter dated 30 March 2010, apparently justifying the increase in the generation charge of Meralco by P0.9115/kWh or from P4.9303/kWh in February to P5.8417/kWh in March to our great disappointment.

This is so because your letter seems to be silent on how the different components of Meralco's generation charge has resulted in this increase of P0.9115/kWh, despite your knowledge that aside from Wholesale Electricity Spot Market (WESM), Meralco has the National Power Corporation (NPC) and its three (3) independent power producers (IPPs), namely, Quezon Power Phil. Ltd., Sta. Rita and San Lorenzo, with a combined capacity of about 1,970 MW, as other sources of electricity.

It was also surprisingly silent on our request that ERC *"Pending the results of the said investigation... order MERALCO to immediately return the P0.9114/kWh increase."*

For better analysis and appreciation of the P0.91/kWh increase last month, allow us to share the facts based on the data we found on Meralco's website. The website shows that Meralco's generation charge of P5.8417/kWh last month was the average of the rates from each of the following sources:

MARCH 2010¹

<u>Source</u>	<u>Price/kWh</u>	<u>Energy Share</u>	<u>Dispatch</u>
1. NPC	P5.4664/kWh	38.46%	
2. WESM	9.3824/kWh	17.08%	
3. QPPL	5.4799/kWh	8.48%	57.31%
4. Sta. Rita	4.9019/kWh	19.97%	60.57%
5. San Lorenzo	4.3931/kWh	15.99%	96.15%

Based on the data above, please allow us to ask the following:

1. Why were Meralco's power purchases from NPC in February 2010 pegged at **P5.4664/kWh** when the ERC-approved NPC effective rate (as can be seen in NPC's website) is only **P4.0271/kWh**? Likewise, the effective rate in March 2010 is only **P4.5046/kWh**, but we will be charged **P6.7699/kWh** this month of April.

Isn't this a violation of the Electric Power Industry Reform Act (EPIRA) which mandates distribution utilities, like Meralco, to supply electricity at the least cost manner to its captive market? We also note that Meralco's generation charge last February of P4.9421/kWh was still higher than the generation charge of electric cooperatives. Poor Meralco customers.

2. What are the liabilities of Meralco IPPs under their power purchase agreements when their dispatch is below the minimum economic quantity (MEQ) which is pegged at 83% ?
3. Why is Meralco's purchases from WESM more than the 10% required of them? Such being the case, shouldn't Meralco be the one to absorb the cost in excess of the 10% requirement?
4. Why was there a sudden increase in the Meralco purchases (38.46%) from NPC in the month of March?

For easier comparison, allow us to present the February and January 2010 transactions of Meralco from the same sources.

¹ http://www.meralco.com.ph/Corporate/rates/gentrans_March2010.htm#gentable

FEBRUARY 2010²

<u>Source</u>	<u>Price/kWh</u>	<u>Energy Share</u>	<u>Dispatch</u>
1. NPC	P4.6615/kWh	30.01%	
2. WESM	6.0769/kWh	14.26%	
3. QPPL	6.0865/kWh	9.62%	59.04%
4. Sta. Rita	4.5310/kWh	30.48%	83.96%
5. San Lorenzo	4.5426/kWh	15.61%	85.30%

JANUARY 2010³

<u>Source</u>	<u>Price/kWh</u>	<u>Energy Share</u>	<u>Dispatch</u>
1. NPC	P4.3764/kWh	29.24%	
2. WESM	3.7402/kWh	14.42%	
3. QPPL	5.6695/kWh	9.89%	62.94%
4. Sta. Rita	3.2489/kWh	32.83%	95.10%
5. San Lorenzo	3.5516/kWh	13.61%	77.12%

As can be seen from the facts above, Meralco's purchases from NPC for January and February were lower by more than P1.00/kWh and still higher than the generation charge of electric cooperatives. Again, we ask, isn't this a violation of the obligation of distributions utilities to supply electricity in the least cost manner under the EPIRA?

On another concern, it is generally known that Meralco and its IPPs are covered by their respective power purchase agreements, which were approved by the former Energy Regulatory Board (ERB) and being enforced under the new regulatory regime, and the contracts have provisions on the minimum economic quantity (MEQ) under the "take or pay" arrangement that should govern their monthly production level available for dispatch.

We are therefore surprised to see the big monthly variances in the dispatch from Meralco's IPPs and the price/kWh from each of its IPPs below the 83% MEQ, which we believe contribute to the higher generation charge of Meralco.

Consumers find the increase in the generation charge of Meralco last month as unjust and unreasonable and the pronouncement of another rate increase this month not only in the generation but also in the distribution charges is so appalling that consumers may be led to believe these increases are being used to finance the candidacy of the generally favored candidates of power utility operators.

² http://www.meralco.com.ph/Corporate/rates/gentrans_February2010.htm#gentable

³ http://www.meralco.com.ph/Corporate/rates/gentrans_January2010.htm#gentable

Since, we are in the midst of the election fever, it may be appropriate to remember that under the Omnibus Election Code, public utilities are prohibited from making any contributions either to any political party or candidates.

It is in this regard that we urge ERC to exercise its "*motu proprio*" powers under the EPIRA by immediately investigating and auditing the books and records of Meralco and other private distribution utilities (PDUs) to ensure that all their revenues are solely used in their operation of distributing electricity. Further, we urge ERC to immediately conduct a review of the Meralco IPP contracts and hold public consultations in order to disabuse the minds of the millions of Meralco customers from this strong impression.

The National Grid Corporation of the Philippines (NGCP) and the National Power Corporation (NPC) should be included as well.

In addition, we also request the Commission to direct Meralco not to implement its rate increase pronouncement of P0.93/kWh this month, but to comply with its statutory obligation of supplying electricity in the least cost manner.

In the public interest and in accordance with its mandate of protecting electricity consumers from unjust and unreasonable rates, we hope the Commission will immediately act on this request to prevent the growing suspicion among consumers regarding the existence of regulatory capture.

In closing, may we reiterate our request in our letter dated 30 March 2010 for the Commission to recall the rate increase last March 2010 until the final report on its investigation on the unusual price spike at the WESM is finally submitted?

Thank you so much and God bless.

Very truly yours,



PETE L. ILAGAN
President