



**National Association of Electricity Consumers for Reforms**

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**DR. ALAN T. ORTIZ**

*President and CEO*

National Transmission Company

Power Center, BIR Road cor Quezon Avenue

Diliman, Quezon City

Re: **Least Cost Supply of Electricity**

**Dear President Ortiz:**

Warm greetings!

In the course of our investigation into the Agreement of the National Power Corp. and Manila Electric Co. to settle issues related to their 10-Year Contract for the Supply Electricity (CSE) from January 1, 1995 to December 31, 2004, the following matters have come to our attention:

- A. Letter of Agreement signed sometime in December, 2000 (effective October 26, 2000 to December 25, 2001) by Mr. Federico E. Puno, President and CEO, Napocor; and, Mr. Jesus P. Francisco, Executive Vice President and COO, MERALCO, purportedly to *address in a constructive manner certain issues with respect to the optimum operation of Quezon Power Philippines Limited (QPPL), First Gas Power Corporation (Sta. Rita) and FGP Corporation (San Lorenzo) and their access to NPC's transmission system;*
  
- B. Settlement Agreement signed July 15, 2003 by Mr. Rogelio M. Murga, President & CEO, Napocor; and, Mr. Jesus P. Francisco, President & COO, MERALCO, the relevant portion of which reads: *"Sec. 2.1. NPC shall allow MERALCO to dispatch its Independent Power Producers namely, Quezon*

*Power, Sta Rita and San Lorenzo, at their respective contracted MEQ levels in order to minimize its (MERALCO) Power Purchase Adjustment (or its equivalent) to its customers. NPC hereby warrants that it shall reduce the nomination of its capacity to accommodate MERALCO IPPs at the contracted MEQ levels.” (Underscoring mine)*

- C. In ERC Case Nos. 2001-646 and 2001-900, the ERC set the generation charge passable to MERALCO customers “*based on weighted average cost of power purchased from NPC and the costs of power supply from MERALCO’s IPPs during the six-month period covering August 2002 to January 2003.*”

NPC generation cost was P2.4664PKWH at 60% of the sales mix while for MERALCO, it was P4.2173 PKWH at 40% of sales.

- D. EPIRA Sec. 23, **Functions of Distribution Utilities**, specifically provides: “*A distribution utility shall have the obligation to supply electricity in the least cost manner to its captive market subject to the collection of retail rate duly approved by the ERC.*”

TRANSCO as System Operator (SO) is likewise under obligation to observe economic dispatch of power plants, so that cheaper plants or least cost electricity take precedence over others.

From the foregoing facts, it is abundantly clear that MERALCO captive customers were being charged generation rates higher than the least cost supply. And TRANSCO as SO is part of that electricity supply system.

Today, there is as yet no showing if the Amendatory Dispatch Agreement referred to in the Settlement earlier cited had in fact been executed by Napocor and MERALCO, nor is there any showing that TRANSCO was indeed part of that Dispatch Agreement or of the NPC-MERALCO joint filing for ERC approval of the Settlement Agreement itself. Still, TRANSCO has duties and obligations as the System Operator, especially in regard to protecting the interest of the captive customers.

To facilitate our further inquiry into the underlying costs of power generation, may we be furnished the records of the dispatch levels of NPC and MERALCO IPPs to the MERALCO franchise area, over the 10-year period from January 1995 to December 31, 2004. We are

particularly interested in the actual deliveries of electricity from the MERALCO IPPs. Please, furnish us too, the Merit Order that guided NPC's (as System Operator for some time) and TRANSCO's dispatch of plants over the same period.

We will appreciate your earliest reply.

Thank you and God bless.

Very truly yours,

**PETE L. ILAGAN**

*President*

Cc: Secretary Raphael P.M. Lotilla, DOE  
Chairman Rodolfo B. Albano, Jr., ERC  
JCPC Members