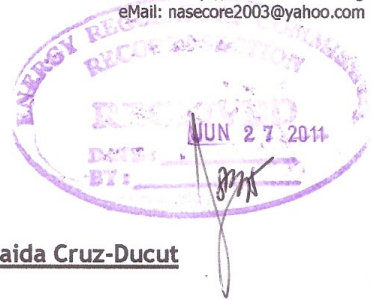




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22 June 2011

THE HONORABLE COMMISSIONERS
Energy Regulatory Commission
16th Floor, Pacific Center Building
San Miguel Avenue, Pasig City



Attention: **ERC Chairperson Zenaida Cruz-Ducut**

Dear ERC Commissioners:

Greetings!

This pertains to our study of Cagayan Electric Power & Light Co. Inc.'s (CEPALCO) financial statements showing an over collection of **P1,022,929,580.25** from 2004 to 2007.

Our finding is based on this Honorable Commission's *Unbundling Decision* dated 19 May 2004 and under ERC Case No. 2001-892 granting CEPALCO's annual revenue requirement of **P388,571,000.00** (net of purchased power cost).

To determine if CEPALCO was getting its ERC-approved annual revenue requirement, NASECORE studied CEPALCO's 2004-2007 annual reports and compared its ERC-approved annual revenue requirements against its actual annual revenues as shown in the table below:

ERC Approved vs Actual Distribution Revenue

Year	Total Revenue (A)	Cost of Power (B)	Actual Distribution Revenue (C=A-B)	Approved Revenue- Unbundling* (D)	Over/ (under) (E=C-D)
2004**	1,339,862,830.83	1,023,297,324.58	316,565,506.25	226,666,416.67	89,899,089.58
2005	2,884,583,778.00	2,157,262,358.00	727,321,420.00	388,571,000.00	338,750,420.00
2006	3,150,716,270.00	2,416,370,152.00	734,346,118.00	388,571,000.00	345,775,118.00
2007***	2,228,749,350.00	1,721,197,064.00	507,552,286.00	259,047,333.33	248,504,952.67
				Total Over/(Under)	1,022,929,580.25

*net of purchased cost
** Equivalent to proportionate amount for 7 months P388,571.00 x 7/12
*** Equivalent to proportionate amount for 8 months P388,571.00 x 8/12
Sources: 2007 to 2009 CEPALCO's Audited Financial Statement submitted to ERC and Unbundling Decision
Note: Cepalco adopted new rates under PBR Methodology in Sept 2007

The table above clearly shows that CEPALCO has an over-collection in the amount of **P1,022,929,580.25** (net of purchased power cost).

- Hon. Benjo Benaldo, Cagayan De Oro City 1st District Representative
- ✓ Hon. Rufus B. Rodriguez, Cagayan De Oro City 2nd District Representative
- Hon. Oscar S. Moreno, Misamis Oriental Governor
- Hon. Vicente Y. Emano, Cagayan De Oro City Mayor

We find these over-collections alarming because we take this as an abuse of market power when CEPALCO decided to deliberately keep to itself these over-collections instead of disclosing this by way of a petition to reduce its current rates but maintaining its approved annual revenues. It is a common industry knowledge that this increase in its annual revenues is attributable to the increase in its annual sales in kilowatt-hours and kilowatt from its captive customers owing to the increasing consumption of its customers and the reduction in its system loss.(emphasis supplied)

We also find this alarming because these CEPALCO over-collections show that the Honorable Commission blatantly failed to closely monitor and review the operations of CEPALCO to determine whether the annual revenue it granted CEPALCO is what is actually being collected only from the consumers based on its approved annual cost of service including its system loss percentage which should be reflected if the utility is operating efficiently or not.

Had ERC done its primary duty of reviewing the annual revenues it granted CEPALCO, it would have easily discovered these over-collections which NASECORE, on its own initiative, have discovered. It appears that ERC needs some reminding on its legal mandate of ensuring-adequate promotion of consumer interests which basically revolves on determining just and reasonable rates.

Further, this ERC failure lamentably renders its approved annual revenues for CEPALCO, the result of its exhaustive study to ensure the viable operations of the electric utility, inutile as it failed to use this to serve as its way of ensuring that the CEPALCO rates are just and reasonable.

In this regard, we urge ERC to immediately conduct a regulatory audit of CEPALCO and reduce its rates so as to stop these over-collections and to immediately direct a refund of these over-collections.

We fervently hope ERC will swiftly act on this request based on its mandate to protect consumers from unjust and unreasonable rates.

Thank you so much.

Very truly yours


PETE L. ILAGAN
President

Cc: Hon. Sergio R. Osmena III, Chair-Committee on Energy, Senate of the Philippines
Hon. Henedina R. Abad, Chair-Committee on Energy, House of Representatives
Hon. Jose Rene Almendras, DOE Secretary
Hon. Jose R. Ping-ay, Chair, Committee on Cooperative Development
Hon. Ponciano D Payuyo, APEC Partylist Representative
Hon. Isidro Q. Lico, Ating Koop Party List
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Hon. Rufus B. Rodriguez, Cagayan De Oro City 2nd District Representative
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