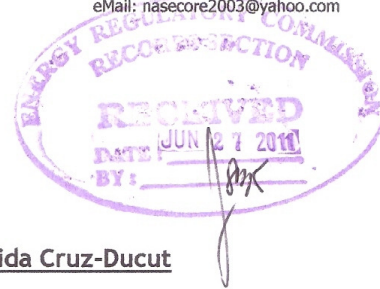




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22 June 2011

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 Misamis Oriental II Electric Cooperative, Inc (MORESCO II) financial statements showing an over collection of P65,977,772.00 from 2004 to 2008.

Our finding is based on this Honorable Commission's *Unbundling Decision* dated 10 March 2004 under ERC Case No. 2001-1001 granting MORESCO II's annual revenue requirement of P40,575,763.00 (net of purchased power cost).

To determine if MORESCO II was getting its ERC-approved annual revenue requirement, NASECORE studied MORESCO II's 2005-2008 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 | Cost of Power | Actual Distribution Revenue | Approved Revenue-Unbundling | Over/ (under) |
|---------------------------|----------------|----------------|-----------------------------|-----------------------------|----------------------|
| | (A) | (B) | (C=A-B) | (D) | (E=C-D) |
| 2004 | 162,423,538.50 | 131,489,139.00 | 30,934,399.50 | 40,575,762.00 | (9,641,362.50) |
| 2005 | 289,629,324.00 | 239,150,967.00 | 50,478,357.00 | 40,575,763.00 | 9,902,594.00 |
| 2006 | 317,291,247.00 | 267,217,254.00 | 50,073,993.00 | 40,575,763.00 | 9,498,230.00 |
| 2007 | 338,360,069.00 | 280,220,656.00 | 58,139,413.00 | 40,575,763.00 | 17,563,650.00 |
| 2008 | 345,378,598.00 | 275,789,537.00 | 69,589,061.00 | 40,575,763.00 | 29,013,298.00 |
| Total Over/(Under) | | | | | 65,977,772.00 |

The table above clearly shows that MORESCO II has an over-collection in the amount of P65,977,772.00 (net of purchased power cost) from 2004-2008. We still need to look into the 2009 and 2010 annual reports of MORESCO II to find out if there are also over collections in these years.

We find this over-collections alarming because we take this as an abuse of market power when MORESCO II decided to deliberately keep to itself this over-collection instead of disclosing this by way of a petition to reduce its current rates but maintaining its approved annual revenues, especially that MORESCO II is *a non-stock, non-profit organization*. 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 this MORESCO II over-collections show that the Honorable Commission blatantly failed to closely monitor and review the operations of MORESCO II to determine whether the annual revenue it granted MORESCO II is what is actually being collected only from the consumers based on it's 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 MORESCO II, it would have easily discovered this over-collection 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 MORESCO II (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 MORESCO II rates it granted are just and reasonable.

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

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. Jose Rene Almendras, DOE secretary
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 R. Ping-ay, Chair, Committee on Cooperative Development
Hon. Ponciano D Payuyo, APEC Partylist Representative
Hon. Benjo Benaldo, Vice-Chair, Committee on Energy, House of Representatives
Hon. Isidro Q. Lico, Ating Koop Party List
