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ERC: proving itself the patron of utilities

Philippine Daily Inquirer

Posted date: June 23, 2010

THIS REFERS TO A NEW ROUND OF INCREASE in Meralco's distribution charges—i.e., distribution, supply and metering (DSM)—approved by the Energy Regulatory Commission (ERC) under the ERC-initiated new rate-setting methodology called Performance-Based Regulation or PBR (which replaced the tested Return-on-Rate Base or RORB).

From an average rate of P0.7957/kWh, Meralco's average unbundled rate rose to P0.9657/kWh in June 2003. With PBR, Meralco's former average rate went up to P1.2227/kWh in May 2009 and to P1.4917/kWh in May 2010. The total increase of P0.696/kWh is more than 87 percent increase in just seven years. Under the PBR alone, the increase in a year's time is P0.5313/kWh or 55 percent. Multiply this P0.5313/kWh increase by Meralco's 2.2 billion kWh monthly sales, and you will realize that ERC in fact granted Meralco an additional monthly profit of P1.16 billion. Doesn't this make ERC the patron of power utilities now?

To make matters worse, a residential customer with monthly electricity consumption of 400kWh or more is being made to pay P3.2006/kWh not P1.4917/kWh. That's a staggering 400 percent increase from Meralco's bundled rate prior to June 2003.

So, why are the distribution charges of Meralco going up under PBR? The reason is simple: utility owners/operators are no longer required to put up the needed capital requirement for their capital and operational expenditures. Through these rate increases approved by the ERC, consumers are, in effect, the ones made to provide for all the capital requirements of the power utilities. Under PBR, ERC tells consumers that, if they want reliable and stable supply of electricity delivered to them by the distribution and transmission companies, they must provide the additional capital for the new and bigger sub-stations/transformers, posts, electrical wires and a bigger O&M budget. Worse, these capital contributions of the consumers are treated by the utility companies as their own capital investment instead of consumers equity. And ERC prefers to be silent on the issue.

It is worthwhile to remember that under the former RORB, the rates approved by ERC were meant to allow the utility to recover the owners' capital plus a reasonable return of not more than 12 percent. PBR allows, among others, a return on capital higher than 15 percent. ERC explains that the shift from RORB to PBR will compel power companies to file with ERC their annual application for the translation of rates so they can be subjected to a regulatory audit. In reality, such annual translation of rates has resulted in nothing but an annual increase of rates.

Other power companies have embraced PBR and yet we have not seen or heard of a single audit report by ERC, as it is legally mandated to do. PBR has simply become a wily scheme of giving undue advantage to private power utilities for them to earn unreasonable perks and profits. Under PBR, power rate regulation has completely been corrupted.

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