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HON. ZENaida CRUZ-DUCUT
Chairperson, Energy Regulatory Commission
16th Floor Pacific Center Bldg.
San Miguel Avenue, Pasig City

Dear Chairperson Ducut,

COA AUDIT

This is in regard to the COA Audit of MERALCO.

We respectfully propose that the test years of the audit should be 2000 and 2004. 2000 was the basis of MERALCO's application for the unbundling of rates while 2004 is the first full year of the implementation of the provisional rates granted by the ERC.

We will also submit some of our concerns which COA may consider in its audit, to wit:

1. Historical cost and not appraised value of the assests should be used in determining the RORB.
2. There should be no recoupment or return on the common and preferred capital stocks; more so on customers deposits and loans/liabilities since the formula used is based on fixed assets not on the Total Invested Capital (TIC).
3. The reasonableness of the following should be looked into:
 - a.) Salaries and other allowances of employees, senior officials and members of the board;
 - b.) Pension Fund Cost; and
 - c.) Other benefits granted to the employees, senior officials and Members of the Board.
4. The propriety and reasonableness of the following charges should also be determined:
 - a.) Metering charge (already included in the Distribution charges)
 - b.) Supply charge (already included in the Distribution charge)
 - c.) System loss charges (is it reasonable)

Very truly yours,

PETE L. ILAGAN
President