

Business Mirror

MERALCO-ERC Team up and Soaring Power Rates

Written by Butch del Castillo / Omerta

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Don't you sometimes get this vague feeling that we are being screwed by the power-distribution giant Manila Electric Co. (Meralco)? This question is intended mainly for the millions of captive household customers in Meralco's vast franchise area in Metro Manila and the adjacent provinces.

If we are not, in fact, being made the hapless victims of such a perverse act, then why are we now paying an average of P10 to P11 per kilowatt-hour (kWh)—or three times the average rates eight years ago—for the electricity we use?

Only about eight or nine years ago, we were paying not more than P3.40 per kWh for this basic convenience. That rate already included the generation, distribution and a half-dozen additional miscellaneous expenses that Meralco would include in our monthly bills for prompt payment in cash.



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(Incidentally, the feeling that we are really being had became more pronounced very recently when Meralco boasted to its stockholders that its projected net profit could reach a historic high of more than P11 billion in 2010.)

Has Meralco been making suckers of us all? About eight years ago, the Power Industry Reform Act (Epira) was signed into law. Everybody thought that, at last, a solution had been found to put an end to the rampant overcharging by power distribution utilities.

The Epira was intended to correct the things that were wrong in the power-industry sector. It even prescribed a road map of sorts that showed the way to an era of reasonable power rates.

Obviously the intended effect never came. Instead, here we are saddled with electricity rates that have trebled to levels that are the highest ever known throughout the Asian region.

This is exactly why we get the frustrated feeling that we are being ravished repeatedly and at will, while the government—particularly the Energy Regulatory Commission (ERC)—seems to derive some perverse satisfaction from watching and even abetting the abuse.

For the past several years, Meralco has been ruthlessly and relentlessly raising its consumer rates. The ERC, under Zenaida Ducut, seems to have converted what was once a regulatory body into a Meralco rubber stamp. Its record of approvals of Meralco rate-increase petitions shows this quite plainly.

Pete Ilagan, the head of the power- industry watchdog National Association of Electricity Consumers for Reforms or Nasecore, suspects the ERC is actually abetting the predatory pricing activities of Meralco. And Ilagan knows why rates have soared to such high levels and how. His explanation: “In 2005, or a couple of years after the Epira became law, the ERC came up with and adopted a new formula it called the Performance-Based Regulation [PBR] rate-setting methodology. Since the adoption of the PBR, power rates have soared alongside transmission and distribution rates on a yearly basis.

Not only Meralco benefited immensely from the adoption of the PBR, which became a sort of multiple-entry and permanent visa for jacking up power rates at will. All the smaller distribution utilities in the country have since been merrily increasing their rates whenever they fancied it, to the consternation of power consumers all over the country.

The PBR is so complicated and its rules so convoluted nobody but the ERC and the utility companies seem to understand how it works. “The complexity of the rules is aggravated by the fact that these allow the inclusion of budget forecasts [part of which are the capital needed for expansion of services and also corporate taxes—which are actually not expenses incurred in the operation of the utility]. Yet these budget forecasts are charged to the consumers’ rate payments, as if they were just and reasonable costs incurred in the operation of the utility, thus unreasonably increasing the consumer rates.”

In approving all huge, extraneous costs as part of a utility’s expenses, the ERC, in effect, allows a utility to pass it on to its customers. This, of course, is a clear violation of the Epira, but who cares? The Epira has made it clear—only “just and reasonable costs” incurred in a utility’s operations may be passed on to customers.

Very clearly, the ERC has adopted a rate-setting system that has given Meralco and the other utilities “undue and clear advantage...to the prejudice of the consumers or the very people the ERC is mandated to protect.

Are we being screwed? Oh, yes, indeed! We all are, and how!