

SUBJECT : SPOT REPORT ON THE SEPTEMBER 1, 2004 BRIEFING FOR THE COMMITTEE ON ENERGY ON THE 17.37 CENTAVOS/KILOWATT-HOUR INCREASE OF MERALCO EFFECTIVE SEPTEMBER 2004 (ERC CASE NO. 2004-205)

A. BACKGROUND

The Committee on Energy, chaired by Senator Miriam Defensor Santiago, requested for a briefing concerning the 17.37 centavos/kilo-watt hour increase of MERALCO effective September 2004. Invited to serve as resource persons were representatives from the Energy Regulatory Commission (ERC), Manila Electric Company (MERALCO), and the Consumer and Oil Price Watch. The briefing was set on 01 September 2004, 10:30 a.m., at the Sen. G. T. Pecson Room.

The briefing was attended by the Chair, and Senators Enrile, Lim, Osmeña III, Gordon, and Lapid.

The following resource persons attended the said briefing:

Energy Regulatory Commission:

Mr. Rodolfo B. Albano, Jr., Chairman
Ms. Ma. Teresa Castañeda, Director, Legal Service
Ms. Ellen Aguila, Director, Regulatory Operations Service
Atty. Francis Saturnino Juan, Director, Gen. Counsel and Secretariat
Mr. Dennis Siaton, Energy Regulation Officer II

MERALCO:

Mr. Manuel L. Lopez, Chairman and CEO
Mr. Christian Monsod, Board Director
Ms. Ivanna G. dela Peña, Vice-President & Head, Utility Economics
Mr. Elpi O. Cuna, Vice-President & Head, Corporate Communications
Mr. Roberto R. Almanzora, Vice-President & Head, Supply
Mr. Rafael L. Andrada, Treasurer/Comptroller

CONSUMER & OIL PRICE WATCH

Mr. Raul T. Concepcion, Chairman

B. HIGHLIGHTS

At the onset, the Chairperson stated that the briefing/hearing was meant to determine whether or not the rate increase, to be imposed starting September 2004, is justified. Highlights of the briefing are as follows:

- Ms. Ellen Aguila of the Regulatory Operations Service of ERC presented to the Committee the features of the Generation Rate Adjustment Mechanism (GRAM) as well its differences with the Purchased Power Adjustment (PPA) mechanism. GRAM, as explained, is used to determine the composite electricity rates of generation companies (i.e., the National Power Corporation and Independent Power Producers) that MERALCO will pass on to its consumers.

| ELEMENTS | PPA | GRAM |
|--|--|---|
| 1. Review of the regulatory body | <i>After</i> the cost has been passed to the consumers | <i>Before</i> the cost has been passed to the consumers |
| 2. Change in rates | Monthly | Quarterly |
| 3. Change in recovery of fixed costs of generation | Automatic but subject to confirmation by the ERC | Only through a petition to adjust generation rate subject to approval by the ERC within a maximum period of 45 days |
| 4. Transmission component | included | Excluded |
| 5. System Loss and franchise tax | Included | Excluded |
| 6. Carrying Cost | without | With |

- She stressed that GRAM excludes transmission costs and that consumers are protected since applications for recovery of generation costs for the past three (3) months are subject to the review and approval of the ERC. She added that distribution utilities will not profit from the GRAM as it is actually a refund for payment made to generation companies.
- The MERALCO presentation, given by Ms. dela Peña, showed that the rate increase of 17.37 centavos/kilowatt hour is simply to enable MERALCO to recover what has been paid to generation companies. She also pointed out that the transmission cost component of monthly billings is about seventeen percent, the highest when compared with cope other countries. She cited that it is the transmission sector [served by the National Transmission Corporation (TRANSCO)] that is the most profitable component of the electric power industry, and not distribution as served by MERALCO.
- Sen. Enrile urged ERC to investigate a contract entered into by the National Power Corporation (NAPOCOR) with MIRANT, an independent power producer. He informed ERC that it has been said that NAPOCOR, a tax-exempt government corporation, through a contract has absorbed the tax obligations of MIRANT.
- Mr. Concepcion of Consumer and Oil Price Watch said that he is not raising any objections on the implementation of the 17.37 centavos/kilowatt-hour rate increase. He, however, expressed apprehension over the next GRAM as it could already reflect the increases in prices of crude oil in the world market.

The Chairperson concluded that, based on the information provided to the Committee, the increase is justified since MERALCO will not profit from it and it is only a response to the increased rates of its suppliers. She also commented the possibility of TRANSCO assuming the rate increase as it is earning a big profit from its transmission operations.

Upon inquiry of Senator Lim as to why generate rates are increasing, and upon the suggestion of Senator Osmeña III, she declared that a continuation of the briefing will be held and that the Department of Energy, Power Sector Assets and Liabilities Management (PSALM) Corporation, National Power Corporation (NAPOCOR), and National Transmission Corporation (TRANSCO) be invited.

ERC promised to furnish the Committee with actual figures that would show that the GRAM is more beneficial to consumers as compared to the PPA, documents showing the rapid increase of TRANSCO's rates, as well as documents disclosing the government ownership of the Malampaya offshore natural gas project, as requested by Senator Enrile.