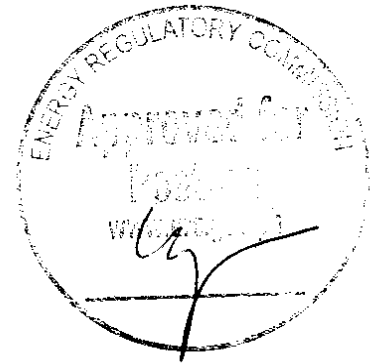


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE PETITION  
FOR THE APPROVAL OF A LOWER  
GENERATION CHARGE FOR BILLING  
MONTH OF MARCH 2010 AND FOR  
THE RECOVERY OF THE  
DIFFERENTIAL GENERATION  
CHARGE WITHIN A SIX (6) MONTH  
PERIOD, INCLUDING THE CARRYING  
COST, WITH PRAYER FOR  
PROVISIONAL AUTHORITY

ERC CASE NO. 2010-017 RC

MANILA ELECTRIC COMPANY  
(MERALCO),  
Petitioner.  
x-----x

DOCKETED  
Date: MAR 10 2010  
By: [Signature]

**ORDER**

On March 9, 2010, the Manila Electric Company (MERALCO) filed a petition for the approval of a lower generation charge for billing month of March 2010 and for the recovery of the differential generation charge within a six (6) month period, including the carrying cost, with prayer for provisional authority.



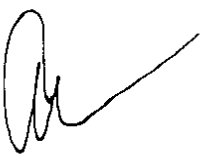
Based on the Petition and the Annexes detailing the computation of the generation charge for March 2010 billing, the generation cost for MERALCO's February supply month, or from January 26, 2010 to February 25, 2010, is PhP15.9 Billion. Computing the generation cost for the February supply month using the automatic generation cost adjustment formula under the Automatic Generation Rate Adjustment (AGRA) promulgated by the Commission in ERC Case No. 2004-322, the generation charge for the March 2010 bill will be

PhP6.76/kWh. As compared with the generation cost of PhP4.9303/kWh for the February 2010 bill, there was a significant increase of PhP1.8297/kWh.

In the instant Petition, MERALCO proposed to lower the generation cost to mitigate the effects of the aforesaid abrupt increase in generation cost. It proposes that, instead of reflecting the actual generation charge of PhP6.76/kWh in its March 2010 billing to its customers, it be allowed to implement a lower generation charge of PhP6.3154/kWh for its March 2010 billing. This would translate to a total generation cost of PhP14.89 Billion only to be charged to its customers in its March 2010 billing. The proposed lower generation charge was computed by MERALCO under the assumption that the natural gas plants, namely Sta. Rita and San Lorenzo, were purely operating using natural gas, instead of the combined use of natural gas and condensate fuel which the plants had to resort to following the preventive maintenance of the Camago - Malampaya facility starting February 10, 2010.

MERALCO, likewise, proposes that the balance of the generation costs amounting to PhP1.046 Billion be spread over a six-month period starting April 2010, representing about PhP0.07/kWh.

The Commission takes note of the circumstances cited by MERALCO that brought about a domino effect resulting in the sudden increase in the generation cost, to wit: high prices in the Wholesale Electricity Spot Market (WESM) as demand rises on account of the shortage in electricity supply in the market. The shortage, in turn, was the consequence of several plants that were either out due to preventive or emergency maintenance, or with de-rated capacity because of the "El Nino" phenomenon. The foregoing circumstances become more relevant as

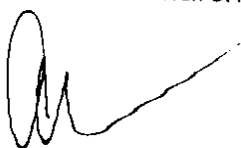


they occurred simultaneously with the start of the summer season when demand for electricity is high.

Aside from the foregoing observation, the Commission is very much aware of the current economic condition of the country and the momentous impact that this higher generation cost will have on MERALCO's customers. Thus, the Commission finds the foregoing proposal of MERALCO to lower its generation charge for the March 2010 billing and to collect the differential generation cost over a six (6)-month period timely and practical. Moreover, on the basis of the Exception Clause under the AGRA Rules, the Commission finds merit in the instant Petition.

However, considering factors other than the initial evidence provided by MERALCO, the Commission deems it prudent to modify the proposal contained in the Petition. In addition to the adjustment made by MERALCO, the Commission takes note of the seventeen percent (17%) volume taken by MERALCO from the Wholesale Electricity Spot Market (WESM). For its WESM purchases, the Commission considers the recovery of the WESM cost up to ten percent (10%) of MERALCO's total purchased power, equivalent to PhP2.86 Billion. On the other hand, the remaining seven percent (7%) of its WESM purchases or PhP2.03 Billion, shall be based on the Commission-approved NPC-TOU rate equivalent to PhP911 Million. The recovery of the cost for the said seven percent (7%) shall still be subject to further evaluation by the Commission.

**WHEREFORE**, the foregoing premises considered, considering the impact of the increase in actual generation cost to be charged to the end-users in March 2010, the petition for approval of a lower generation charge for the billing month of March 2010 and for the recovery of the differential generation charge within a six

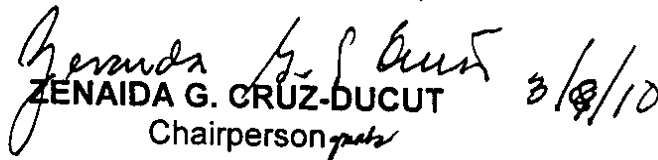


(6)-month period is hereby **PROVISIONALLY APPROVED** with **MODIFICATION**. Accordingly, MERALCO is hereby authorized to collect PhP13.77 Billion as generation cost, at the rate of PhP5.8417/kWh to be reflected as generation charge for the March 2010 billing.

Further, MERALCO is hereby authorized to collect the generation costs amounting to PhP1.046 Billion, for the use of a combination of natural gas and condensate fuel, at the rate of about PhP0.07/kWh, over a six (6)-month period, starting April 2010. The balance of the generation cost being applied for by MERALCO shall be determined in the course of the proceedings.

**SO ORDERED.**

**Pasig City, March 10, 2010.**

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson *grts*

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA R. CASTAÑEDA**  
Commissioner

(On Official Travel)  
**JOSE C. REYES**  
Commissioner

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