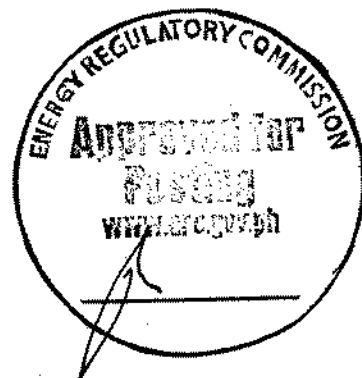


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE  
APPLICATION FOR THE RECOVERY  
OF THE INDEPENDENT POWER  
PRODUCER COSTS UNDER THE  
GENERATION RATE ADJUSTMENT  
MECHANISM (GRAM)

**ERC CASE NO. 2004-205**

**MANILA ELECTRIC COMPANY  
(MERALCO),**

Applicant.

X ----- X

**D O C K E T E D**

Date: **AUG 23 2004**

By: \_\_\_\_\_

**ORDER**

On July 9, 2004, applicant Manila Electric Company (MERALCO) filed an "Application" for recovery of the Independent Power Producer (IPP) Costs under the Generation Rate Adjustment Mechanism (GRAM) praying that its proposed generation charge of **P3.4950/kWh** be approved for implementation.

In the said application, MERALCO alleged that it is filing the instant application in compliance with the directive of the Commission in its Order dated March 20, 2003 in ERC Case Nos. 2001-646 and 2001-900 which directed it to discontinue charging the Purchased Power Adjustment (PPA) upon the effectivity of the approved unbundled rates and to reflect the change in the cost of power purchased as deferred charges or credits to be recovered through the GRAM; that the Commission in its Order dated June 2, 2004 has approved its generation charge of P3.3213/kWh inclusive of the deferred PPA component of P0.1834/kWh recoverable from its customers effective immediately; that consistent with Republic Act No. 9136 and the Implementing Rules of the GRAM, it has recalculated its proposed generation charge aimed at updating the generation charge from **P3.3213/kWh** to **P3.4950/kWh**; and that the said generation charge is inclusive of the following: a) the P0.0677/kWh reduction in the Generation Cost from the base rate in the current generation charge of P3.3444/kwh to the new base rate of P3.2767/kwh covering the test period from February to May 2004; b) the computed Deferred Accounting Adjustment (DAA) of P0.0349/kWh; and c) the deferred PPA in the amount of P0.1834/kWh authorized in the Commission's Order dated June 2, 2004 under ERC Case No. 2004-112

## DISCUSSION

MERALCO's proposed generation rate of **P3.4950/kWh** is computed as follows:

	(P/kWh)
Base Rate, Exclusive of DAA & Deferred PPA, Per 2 <sup>nd</sup> GRAM	3.3444
Decremental Generation Cost, Average for the Test Period	(0.0677)
Deferred Accounting Adjustments	0.0349
Deferred PPA	0.1834
<b>Proposed Generation Cost Effective September 2004</b>	<b>3.4950</b>

In evaluating the instant application, the Commission took into consideration the following factors: a) Base Rate; b) Deferred Accounting Adjustment (DAA); and c) Deferred Purchased Power Adjustment (PPA).

### A. Base Rate

The P3.3444 base rate is the average generation cost per kWh approved in MERALCO's 2<sup>nd</sup> GRAM application excluding the adjustments for DAA and deferred PPA which was carried forward in the 3<sup>rd</sup> GRAM application.

Relative to the instant application, MERALCO's base rate was decreased by P0.0677 in the form of a Decremental Generation Cost as a result of its updating to current level.

MERALCO submitted billings from the National Power Corporation (NPC), Quezon Power Philippines, Ltd. (QPPL), First Gas, Duracom and Philpodeco for the test period February to May 2004 to determine the average generation cost. A verification conducted by the Commission disclosed that said submissions were in order. Accordingly, the average Decremental Generation Cost for the test period February to May 2004 was computed as follows:

Average Generation Costs for February to May 2004	3.2767
Less: Base Rate	3.3444
Decremental Generation Cost for February to May 2004	<u>(0.0677)</u>

Consequently, the average Net Generation Cost per kWh purchased for the said period is equivalent to **P3.2767**.

**B. Deferred Accounting Adjustments (DAA)**

The DAA is computed by taking into consideration the cumulative balance for both under/over recoveries and the corresponding carrying charges thereon.

The Commission updated the recoveries in the generation cost covering the test period February to May 2004 as well as the carrying charge portion of the previous GRAM DAA already refunded to the customers for the same test period. However, in the instant application, MERALCO failed to incorporate said adjustment in its carrying charge.

The DAA will be amortized over four (4) months in accordance with the policy that the period for its amortization should cover the same length of time used in the test period.

**C. Deferred Purchased Power Adjustment (PPA)**

MERALCO proposed a deferred PPA in the amount of P0.1834/kWh which is the same amount approved by the Commission in its 2<sup>nd</sup> GRAM application.

**WHEREFORE**, the foregoing premises considered and finding applicant Manila Electric Company's (MERALCO) submissions in order, the Commission hereby **APPROVES** MERALCO's revised Generation Rate of **P3.4950/kWh** effective September 2004. MERALCO is directed to submit monthly monitoring reports on its DAA Charges and Deferred PPA.

SO ORDERED.

Pasig City, August 20, 2004.

  
**RODOLFO B. ALBANO, JR**  
Chairman

  
**OLIVER B. BUTALID**  
Commissioner

  
**JESUS N. ALCORDO**  
Commissioner

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