

ERC allows reimbursement of MERALCO's PhP8.8 Billion generation cost

On January 18, 2008, the Energy Regulatory Commission (ERC) issued an Order authorizing the Manila Electric Company (MERALCO) to adjust its generation rates by PhP0.1662/kWh, effective its February billing. In the same Order, the ERC directed MERALCO to refund its Net Settlement Surplus (NSS) by implementing a rate reduction at PhP0.1614/kWh. Combining these two adjustments approved in the Order, the net impact for the MERALCO consumers would be an increase of PhP 0.0048/kWh only.

Said Order was issued in connection with MERALCO's ten (10) pending applications to recover adjustment in its generation and system loss charges for the months of August 2006 to May 2007. During these months, MERALCO was not allowed to automatically adjust its generation and system loss rates under the AGRA (Automatic Generation Rate Adjustment) Mechanism, pursuant to the Supreme Court's Resolution in G.R. No. 163935 (NASECORE v. ERC and MERALCO) dated August 16, 2006. In compliance with the said Resolution, the ERC directed MERALCO to discontinue its implementation of the AGRA and, consequently, its generation rate was pegged at its August 2007 level of PhP4.42/kWh.

In its ten (10) resulting applications, MERALCO applied for authority to recover the total amount of PhP21 Billion, representing its alleged under recoveries for August 2006 to May 2007. After careful evaluation, the ERC was able to confirm so far the amount of PhP8.8 Billion only or less than half the total amount applied for, equivalent to PhP0.1614/kWh. This amount was verified to have been actually incurred by MERALCO and should already be recovered. *The ERC's Order provides some relief in MERALCO's cash flow considering the billions it has advanced to its power suppliers, which have remained unrecovered. With this relief, MERALCO's viability to remain in business to provide reliable service is assured and the possibility of imposition of additional carrying charges to cover its financing costs is minimized. These ultimately benefit the consumers.* ERC Chairman and CEO Rodolfo B. Albano Jr. explained.

The generation rate is a pass-through rate for the recovery of a distribution utilities' (DUs) cost of power supplied to their customers. The DUs do not earn a single centavo from this charge. Unlike MERALCO, the other DU's continued with the implementation of the AGRA as they were not party to G.R. No. 163935.

To cushion the impact of this increase, the ERC ordered MERALCO to at the same time refund its accumulated NSS at the rate of PhP0.1614/kWh. Until this NSS is fully refunded, the net increase that will be experienced by MERALCO consumers pursuant to the Order is PhP 0.0048/kWh only. The implementation of this net adjustment can be further mitigated by reductions in MERALCO's present generation costs that may result from any ERC-approved rate reduction for NPC under its GRAM and ICERA filings.

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