

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



IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
RATE SCHEDULE TO IMPLEMENT
THE NPC RATE REDUCTION UNDER
ERB CASE NO. 97-02

ERC CASE NO. 2001-383
(ERB CASE NO. 97-18)

MANILA ELECTRIC COMPANY, INC.
(MERALCO),

Applicant.

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Date: DEC 23 2002
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This pertains to the Purchased Power Adjustment (PPA) of applicant Manila Electric Company (MERALCO) for the period January 2000 to September 2002.

After a thorough evaluation, it was found that MERALCO's monthly submissions included the under-recovered amount due to its deferral of a portion of the purchased power cost. Said deferral of PPA is a deviation from the formula approved by the then ERB (now ERC) under ERB Case No. 2000-168. In fact, a Show-Cause Order dated April 30, 2002 was issued by the Commission directing MERALCO to cease and desist from automatically including in its customers' bills said deferred PPA.

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MERALCO claimed that it still has an under-recovered purchased power cost amounting to P9.2 Billion as of September 2002. However, upon verification, the under recovered purchased power cost amounted to only P7.3 Billion, computed as follows:

PPA Over/(Under) Recovery (In Thousands)

Period	ERC Over/(under) Recovery	Meralco's Over/(under) Recovery
Bal. As of Dec 1999	(P1,761,819)	(P1,761,819)
CY2000	(6,702,985)	(5,242,336)
CY2001	(4,685,960)	(5,336,113)
Jan. to Sept. 2002	<u>5,846,716</u>	<u>3,071,317</u>
Total under recovery	<u>(P7,304,048)</u>	<u>(P9,268,952)</u>

At this juncture, it must be emphasized that the aforesaid computation includes the transmission line fee of MERALCO in the amount of P1,545,475,878. This item is still being evaluated and may be subject to adjustment.

The discrepancy between the computations of MERALCO and the Commission was due mainly to issues related to pilferage recoveries.

In computing the amount of pilferage recoveries to be included in its PPA computations, MERALCO deducted the expenses it incurred in its anti-pilferage campaign. In so doing, it argued: "that passing-on the full recoveries to its customers would mean double penalty on its part because it will be financially penalized in the form of a foregone revenue (for not meeting the cap) and at the same time will suffer from diminution of its actual revenue and when actual

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system loss is above the cap, any recovery from pilferage losses should be kept by it because it was the one who suffered the financial impact, not the customers".

The Commission believes that MERALCO's pilferage recoveries should be deducted in full from its PPA computations. Said policy is in accordance with Section 2, Rule X of the Implementing Rules and Regulations of Republic Act No. 7832, otherwise known as the "Anti-Pilferage Act of 1995", hereunder quoted as follows:

"Section 2. The full amount recovered by the utility or cooperative under the preceding section shall be reflected as a reduction in the customer's electric bill through the automatic cost adjustment formula abovementioned, the application of which shall be verified and confirmed by the Board through an Order."

Moreover, the then ERB (this Commission's predecessor) in an Order dated July 7, 1995 under ERB Case No. 95-05 (In the Matter of the Setting of Rules and Regulations to Implement Republic Act No. 9136) had the occasion to rule on the same subject matter, as follows:

"It must be emphasized that all necessary expenses incurred by the electric utilities and cooperatives, including those incidental expenses incurred in pursuing pilferers which is carried on to the distribution charge, are automatically included in the normal operating expenses of utility/cooperative allowed for rate-making purposes. Thus to allow the utility or cooperative to retain the distribution charge portion,

when the same is considered as part of operating expenses, would be tantamount to allowing the utility or cooperative to obtain double recovery". X X X X

MERALCO added its pilferage recoveries instead of deducting it from its PPA computations for the period October 2001 to March 2002, contrary to the aforequoted provision of law requiring said pilferage recoveries to be deducted from the PPA computations.

The Commission notes that pilferages cause actual system loss to increase and the distribution utility is penalized when said losses exceed the cap. When the distribution utility successfully recovers amounts pertaining to pilferages, it is likewise fair to give some credit in terms of kWh sales. For this purpose, the Commission included the Violation of Contract (VOC) sales in kWh calculated as the gross pilferage recovery during a month divided by the average effective selling price per kWh. MERALCO's method of estimating pilfered energy may be appropriate for pursuing a particular VOC case. However, the amount of money actually recovered does not necessarily correspond to the amount of energy in MERALCO's estimate. The Commission believes it is the amount of money collected that should serve as the basis for VOC sales.

The foregoing premises considered, MERALCO is hereby authorized to collect the under-recovery amounting to P5,758,572,351. However, said collection should be through the inclusion of the amortized amount as part of the unbundled generation rate schedule to be approved by the Commission in ERC Case Nos. 2001-646 and 2001-900. With respect to the P1.5 B which is still being evaluated by the Commission, the disposition of the same will be determined when such matter is resolved. The Commission hereby confirms MERALCO's

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PPA computations from January 2000 to September 2002 subject to the disposition.

SO ORDERED.

Pasig City, December 19, 2002.

Leticia V. Ibay
LETICIA V. IBAY
Commissioner

Mary Anne B. Colayco
MARY ANNE B. COLAYCO
Commissioner

Oliver B. Butalid
OLIVER B. BUTALID
Commissioner

Carlos R. Alindada
CARLOS R. ALINDADA
Commissioner

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