

INTRODUCED BY SENATOR RISA HONTIVEROS

**RESOLUTION**

**DIRECTING THE SENATE COMMITTEE ON ENERGY TO INVESTIGATE, IN AID OF LEGISLATION, PRICE-SETTING PRACTICES OF THE MANILA ELECTRIC COMPANY (MERALCO) AS WELL AS THE RATE-SETTING AND OTHER REGULATORY MECHANISMS OF THE ENERGY REGULATORY COMMISSION (ERC)**

**WHEREAS**, the Manila Electric Company (MERALCO), as a public utility that holds a franchise to distribute electricity to a large portion of the Philippines, possesses dominant market power, and exercises significant control over electricity distribution, making it essential that it operates fairly and transparently to prevent any abuse of its position, and safeguard consumer rights and the public interest;

**WHEREAS**, the Energy Regulatory Commission (ERC) is the government agency vested with the authority to regulate MERALCO and to ensure that electricity rates reflect the principle of least-cost and are fair and reasonable for consumers;

**WHEREAS**, there have been serious concerns raised about MERALCO's rate-setting practices, including allegations of overcharging, and a lack of transparency, and these concerns have been brought forward by consumer groups, industry experts, and even dissenting opinions from within the ERC itself;

**WHEREAS**, there is evidence to suggest that the ERC has not properly fulfilled its mandate to protect consumers, and there are indications that the ERC has allowed MERALCO to circumvent rate-setting rules;

**WHEREAS**, MERALCO's distribution rates have been a subject of significant controversy, with concerns raised regarding the application of its Weighted Average Cost of Capital (WACC) and whether it is imposing charges on consumers in accordance with the least-cost principle;

**WHEREAS**, there are allegations that MERALCO may be double-charging consumers for the impact of inflation by including inflation in both the Regulatory Asset Base (RAB) and the Rate of Return (WACC);

**WHEREAS**, the Regulatory Asset Base (RAB), which is used to calculate MERALCO's revenue requirements, may be overstated, by including items that were not acquired using MERALCO's capital (such as customer deposits and Provisions for Losses), and thus not entitled to any return or compensation;

**WHEREAS**, MERALCO has been accused of over-collecting from consumers for over a decade, and past refunds may not have been sufficient to cover these overcharges;

**WHEREAS**, MERALCO has an annual expense called "Provision for Losses" equivalent to 16% of its distribution revenue from 2008 to 2022, which is related to

over-recovery or over-billing, with no clear disclosure on the movements of this account;

**WHEREAS**, MERALCO has been using an interim average rate (IAR), and there have been substantial delays in the ERC's rate-reset process, raising concerns about the fairness of interim and current rates;

**WHEREAS**, serious questions have been raised regarding MERALCO's compliance with the provisions of Commonwealth Act No. 146, as well as with ERC directives, particularly regarding the revaluation of assets, and the publication of rules for distribution and wheeling rates (RDWR);

**WHEREAS**, there is a need to review the rate-setting methodology used by the ERC, because it appears to have failed to implement Performance-Based Regulation (PBR), an internationally-accepted rate setting methodology;

**WHEREAS**, there are also issues *vis-a-vis* the fairness and transparency surrounding MERALCO's power purchase agreements, particularly whether these agreements ensure the best possible prices, and least-cost, for consumers;

**WHEREAS**, in light of the upcoming expiration of MERALCO's franchise in 2028, it is crucial to address these issues prior to any renewal of the franchise, to ensure that any such renewal is done with full transparency, and with the best interests of consumers at heart;

**WHEREAS**, affordable and reliable electricity is a fundamental prerequisite for national economic development, as it fosters industrial growth, enhances business competitiveness, attracts investments, and improves the overall quality of life for citizens; and

**WHEREAS**, the rules that the ERC applies to MERALCO are essentially the same rules that must apply to other distribution utilities in the entire country, and errors of omission as well as errors of commission with respect to, and by, MERALCO are the benchmark for the regulation and conduct of all other distribution utilities.

**NOW, THEREFORE, BE IT RESOLVED, AS IT IS HEREBY RESOLVED TO DIRECT THE SENATE COMMITTEE ON ENERGY TO INVESTIGATE, IN AID OF LEGISLATION, PRICE-SETTING PRACTICES OF THE MANILA ELECTRIC COMPANY (MERALCO) AS WELL AS THE RATE-SETTING AND OTHER REGULATORY MECHANISMS OF THE ENERGY REGULATORY COMMISSION (ERC).**

Adopted.

  
**RISA HONTIVEROS**  
Senator