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22 January 2026

THE HONORABLE ERC CHAIRPERSON AND COMMISSIONERS

Energy Regulatory Commission

Exquadra Tower, Jade Drive

San Antonio, Pasig City

ATTY. FRANCIS SATURNINO JUAN

Chairperson and CEO

ATTY. FLORESINDA BALDO-DIGAL

Commissioner

MARKO ROMEO FUENTES

Commissioner

ATTY. AMANTE A. LIBERATO

Commissioner

ATTY. PARIS G. REAL

Commissioner



Joseph Aseremo Jr.

ERC-RCUD 23 JAN 2026 PM 3:57

Subject: Inquiry on Compliance of MERALCO Subsidiaries, Associates, and Joint Ventures with Section 26 of EPIRA, Including Investment Growth (2017–2024)

Dear Honorable Chairperson and Commissioners:

Good day!

We respectfully write to seek clarification from the Commission, in the exercise of its statutory mandate under Republic Act No. 9136 or the *Electric Power Industry Reform Act of 2001 (EPIRA)*, particularly **Section 26 on Distribution-Related Businesses**.

At the outset, we respectfully note the Commission's letter dated **04 December 2025**, issued in response to our follow-up letter dated 27 November 2025 concerning the requested ERC-COA joint audit of MERALCO's consumer-funded investments .

We emphasize that the **present inquiry is distinct from, and does not seek to revisit**, the matters addressed in said letter. This communication does **not** seek an ERC-COA joint audit, nor does it ask the Commission to regulate the general disposition of MERALCO's profits outside the rate-setting context.

Rather, this inquiry is **squarely within the Commission's acknowledged and continuing mandate** to regulate distribution utilities, interpret and apply EPIRA, ensure proper treatment of assets forming part of the rate base, enforce accounting separation, and determine the regulatory treatment of income affecting distribution wheeling charges.

May we draw your attention to Section 26 of EPIRA which expressly provides:

"Distribution utilities may, directly or indirectly, engage in any related business undertaking which maximizes the utilization of their assets: Provided, That a portion of the net income derived from such undertaking utilizing assets which form part of the rate base shall be used to reduce its distribution wheeling charges as determined by the ERC: Provided, further, That such portion of net income used to reduce their distribution wheeling charges shall not exceed fifty percent (50%) of the net income derived from such undertaking: Provided, finally, That separate accounts are maintained for each business undertaking to ensure that the distribution business shall neither subsidize in any way such business undertaking nor encumber its distribution assets in any way to support such business."

Compliance with Section 26 is therefore conditional and cumulative, requiring satisfaction of **all four (4) conditions**.

Based on MERALCO's 2022, 2023, and 2024 Annual and Integrated Reports and Audited Financial Statements, MERALCO has disclosed numerous subsidiaries, associates, and joint ventures, including entities engaged in power generation, retail electricity supply, distribution-related services, engineering, ICT, financial services, real estate, insurance, payments, and other "beyond-energy" undertakings, with corresponding investment amounts and ownership interests, where disclosed.

These disclosures establish the factual universe of entities potentially subject to Section 26 of EPIRA.

In view of the foregoing, we respectfully request the Commission to identify, determine, and clarify, for each subsidiary, associate, and joint venture disclosed in MERALCO's 2022-2024 Annual Reports, the following:

A. First Condition – Distribution-Related and Asset-Maximizing

Which entities have been determined by the ERC to constitute “*related business undertakings which maximize the utilization of distribution assets,*” and which have not.

B. Second Condition – Use of Net Income to Reduce Wheeling Charges

For each entity determined to be distribution-related, whether the ERC has verified that **a portion of the net income derived from such undertaking utilizing assets forming part of the rate base has actually been applied to reduce MERALCO’s distribution wheeling charges**, including the specific ERC order, approval, or rate determination supporting the same.

C. Third Condition – Fifty Percent (50%) Limitation

Whether the ERC has confirmed that the portion of net income applied to reduce distribution wheeling charges **did not exceed fifty percent (50%)** of the net income derived from each such undertaking.

D. Fourth Condition – Separate Accounts and No Cross-Subsidy

Whether the ERC has required, reviewed, and confirmed the maintenance of separate accounts for each undertaking sufficient to ensure that:

1. the distribution business did not subsidize such undertaking in any way; and
2. distribution assets forming part of the rate base were not encumbered or used to support such undertaking.

Further, considering that MERALCO’s investments in its subsidiaries, associates, and joint ventures have materially increased over time, we respectfully request the Commission to clarify:

1. **The annual amount of MERALCO’s investment in each subsidiary, associate, and joint venture from 2017 to 2024**, as reflected in its Audited Financial Statements and regulatory submissions;
2. **The cumulative investment growth per entity over the same period**, indicating additional equity infusions, advances, or reclassifications, if any;
3. Whether such increases were **subject to ERC approval or regulatory confirmation**, particularly where such investments involved assets forming part of the distribution rate base or funds derived from Commission-approved revenues; and
4. **Whether income generated from such increased investments was:**
 - a. accounted for separately; and
 - b. applied, in whole or in part, to reduce distribution wheeling charges in accordance with Section 26 of EPIRA.

For clarity and transparency, we respectfully request the Commission to indicate, for each entity, whether it has:

- (a) complied with **all four (4) conditions** of Section 26;
- (b) complied with some but not all of the conditions; or
- (c) not been evaluated or has no recorded ERC determination to date, and to cite the specific ERC resolutions, orders, approvals, or audit findings, if any, supporting such determinations.

In closing, it bears stressing that this inquiry is made in the interest of regulatory transparency, faithful implementation of EPIRA, and protection of captive electricity consumers, and is intended to assist in clarifying the Commission's regulatory treatment of MERALCO's expanding portfolio of non-core undertakings.

We respectfully request a **written response** from the Commission.

Thank you for your continued service.

Very truly yours,



PETRONILO "PETE" L. ILAGAN
President

Copy furnished:

His Excellency, President Ferdinand R. Marcos Jr.
Hon. Ralph Recto, Executive Secretary
Hon. Vicente "Tito" Sotto, Senate President
Hon. Faustino "Bojie" Dy III, Speaker of the House of Representatives
Hon. Sharon S. Garin, Secretary, Department of Energy