

**RULES TO GOVERN THE FILING OF CONSOLIDATED ANNUAL FILING BY DISTRIBUTION UTILITIES
FOR THE RECOVERY OF VARIOUS PASS THROUGH COSTS**

Provisions Article/ Section/Title	Proponent	Comments and/or Questions	Proposals
<p>Article 1, Section 1 General Provisions</p>	<p>MERALCO</p>	<p>The draft Rule will not satisfy the objectives as stated since free and fair competition is not yet achieved given that there is still significant market power that exists since EPIRA target of privatizing 70% of NPC’s generation assets and 70% of PSALM’s IPPs are not yet satisfied.</p> <p>We share in the Commission’s objective of stability of rates but not at the expense of the DU. Since electricity, by its very nature, is volatile (it can not be stored), and that the Philippines is a fuel importing country fixing power rates for one year will only provide a false expectation on all stakeholders (e.g., policy makers, suppliers and consumers) that prices are stable. Also, it will not develop the provide correct pricing signals.</p> <p>The draft Rule does not take into account fluctuations in fuel prices (particularly oil, coal and natural gas), foreign exchange rate (Php per US\$), inflation, transmission system constraints and exercise of market power of generators. Oil price is increasing exponentially, as well as coal price as world generation shift to coal-based generation. On the other hand, natural gas, while an indigenous fuel, is indexed on the price of oil. Further, the price of natural gas includes a government royalty which is a percentage of the price in US\$. Transmission system constraints also result to spikes in WESM prices.</p> <p>Fixing the retail rate may be advantageous to consumers in a regime of increasing prices and disadvantageuos in a regime of declining prices because consumers will not readily benefit.</p> <p>The resulting one-year lag in the recovery of previous year under-recovery will result to cross-subsidy between customers. An industrial customer, which because of its efficiency in year 1 and expanded two-fold in year 2 will now carry the burden of paying more for the under-recovery of the previous year on the power costs consumed in year 2. On the other hand, another customer which, because of its inefficiency</p>	<p>Since the EPIRA and its IRR already allow automatic recovery of pass-through charges, it is suggested that the mechanisms for its recovery should address the concerns of distribution utilities for a timely recovery of all its pass-through costs, thereby ensuring and protecting its viability, without additional burden on the consumers. Accordingly, it is recommended that automatic adjustment clauses for pass-through cost should be retained.</p> <p>Hence, we propose to: Retain the existing monthly generation rate adjustments (status quo).</p>

	<p>in year 1, has to reduce its production output in year 2 will now pay less for the under-recovery because it consumed less power on year 2. This will be more obvious with retail competition when captive customers become contestable and the captive customer base is shrinking.</p> <p>While rate stability may achieve greater operational and economic efficiency on the part of the consumers, the regulatory lag (and ensuing political risk) will put severe financial strain on the DU's resources resulting to higher cost of service.</p> <p>The rationale for the amendment to the provisions of Rule 3, section 4 (e) of the EPIRA IRR, which exempts from the application of section 4, various cost-recovery and automatic adjustment mechanisms is to ensure timely recovery by the distribution utilities of all pass-through charges, without additional burden to the consumers in terms of carrying costs.</p> <p>These cost-recovery mechanisms and automatic adjustment clauses, are dictated by the situation whereby the pass-through costs, particularly for purchased power (i.e, generation, transmission, system loss, etc), are unstable due principally to escalating fuel oil prices and fluctuations in foreign exchange rates, over which matter the distribution utilities have no control. It cushions the distribution utilities from these fluctuations in the costs of operation, thereby allowing them to maintain a semblance of stability on their rate of return and more importantly, enables them to continue to furnish essential public service. These adjustment mechanisms avoid a continuing series of revision of rates that entail a long and tedious process of a formal hearing on every application or petition for adjustment on account of fluctuations in this major cost of operation.</p> <p>However, even with these mechanisms and adjustment clauses already in place, the rule, as amended, still requires that the same will be subject to a subsequent verification by the ERC to avoid over/under recovery of charges. This kind of mechanism has long been sanctioned by the Supreme Court when it affirmed the validity of the Power Purchased Adjustment clause or PPA in the case of Emmanuel Santos vs. Meralco, where the Supreme Court dismissed allegations</p>	
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		<p>that automatic adjustment clauses are arbitrary and unreasonable. Similar imprimatur was given by the Supreme Court for the implementation of foreign exchange clauses.</p> <p>Thus, with due respect, for all legal intents and purposes, there seems to be no reasonable or valid justification for a change in the cost-recovery mechanisms from monthly to annual. Albeit, it clearly defeats the objective of the law which allows recovery of just and reasonable costs, the EPIRA IRR which authorized automatic adjustments of pass-through charges, and the existing guidelines of the Commission which recognize the need of the distribution utilities to timely recover their costs without additional burden to consumers.</p> <p>May we seek clarification for Objective b: What if the formula does not allow full recovery of costs?</p>	<p>There should be a validation mechanism to ensure the full recovery of allowable costs.</p>
<p>Article 1 Section 3 Definition of Terms</p>	NASECORE		<p>Nasecore proposes that the Rules must come up with the definition of what is LEAST COST.</p>
<p>Article 1 Section 3 3.4 “Annual Lifeline Subsidy Rate (ALSR)”</p>	MERALCO		<p>Suggested definition: “Annual Lifeline Subsidy Rate (ALSR)” shall refer to the subsidy provided by non-lifeline customers to be able to provide subsidized rate to marginalized/low income captive market end-users.</p>
<p>Article 1 Section 3 3.5 “Annual System Loss Rate (ASLR)”</p>		<p>The “Annual System Loss Rate” definition <u>refers to a formula</u> in another section of the proposed Rules while the other rate definitions: Generation, Transmission and Lifeline Subsidy rates <u>do not make reference to their respective formulas.</u></p>	<p>For consistency, we suggest that the definition for each type of annual retail rate describe the nature of the charge rather than refer to a formula.</p>
<p>Article 1 Section 3 3.12 “Net Settlement Surplus (NSS)”</p>		<p>NSS are returned to DUs on a quarterly basis and not all NSS accrued are actually returned, since PEMC maintains an amount for contingencies (10% I think)</p>	<p>Net Settlement Surplus (NSS)” shall refer to the <u>amounts returned to the DU by PEMC representing the excess of total payments of customers in the WESM over the total payments to generators arising as a result of congestion and losses in the transmission system, which bring about price differences between generators and consumer nodes.</u></p>

<p>Article 1 Section 3 3.17 “Recovery Period”</p>		<p>The term Recovery Period is used in two different contexts in this Rule. In the first context, this refers to the period subject for recovery, while in the second context, this refers to the period upon which an under/over-recovery is to be collected from or refunded to the consumers.</p>	<p>Introduce the following definitions to avoid ambiguity: Recovery period shall refer to the period upon which any under- (or over) recovery in generation, transmission, system loss and lifeline subsidy cost is to be collected from (or refunded to) consumers Period subject for recovery shall refer to the period for which an under (or over) recovery in generation, transmission, system loss and lifeline subsidy costs are to be determined.</p>
		<p>The term “power distributed to customers under the DU’s special programs” and its associated energy cost should be defined.</p>	<p>Suggested definition: Power Distributed to Customers Under the DU’s Special Programs shall refer to the power distributed to customers with separate back-to-back energy sourcing contract.</p>
<p>Article 2 Calculation of Annual Retail Rates Section 1</p>	<p>MERALCO</p>	<p>Annual adjustment will further increase under-recoveries from pass-through costs because of more than a year delay in recovery. For generation charge under-recovery, are <i>rGOUR</i> and <i>cAGRA</i> just like the OGA items included in the automatic mechanism? If that is the case, these items will be eliminated until such time the deferred charges are fully recovered. The same with Transmission Charge and System Loss charge under-recoveries, are the <i>rTOUR</i>, <i>rSLOUR</i> and <i>cSLR</i> for the recovery of deferred charges? Is the compliance submission for the under-recoveries computation on a monthly basis again?</p>	
	<p>CASURECO IV</p>		<p>We suggest that the Commission should first present their simulation on their proposed formulae before they impose it so that DU’s have reference in their computation/application.</p>
<p>Article 2, Section 2, 2.1.1</p>	<p>Region 10 FIMAP/ AMRECO</p>	<p>This subsection is not clear as to what particular TOU rates will be used for TOU customers. Does this refer to the approved hourly rates of NPC as approved by ERC? If so, this should be an exception to the annual generation rate since the rates are fluctuating hourly as already programmed in the TOU meters. If it refers to the average TOU rates, that would defeat the purpose of customers availing of TOU rates.</p>	<p>For TOU customers, the generation rate <u>will still be the hourly TOU rates of NPC as programmed in their TOU meters</u> plus adjustments on GRAM and ICERA as approved by the Commission.</p>
	<p>ILPI</p>		<p>The said section is recommended to read as follows: “For TOU customers, the generation rate shall be the rate</p>

			derived pursuant to the provisions set forth in the Draft Rules to Govern the Application and Approval of the TOU Retail Rates of Distribution Utilities Sourcing 100% of their Power Requirements from the National Power Corporation (NPC)".
Article 2, Section 3 Calculation of Annual Generation Rate	DLPC	On Formula 1, AGR, the 50% PPD, pilferage recoveries, etc. are not included in the proposed formula but are included in the under(over) recovery computation in Formula 5 (page 10). This will definitely result to over-recoveries yearly.	The formula to calculate the annual retail rate must be consistent with the formula to account for the under(over)-recoveries.
	ILPI		TGC should be defined as the Total Generation <i>Cost</i> rather than the Total Generation <i>Charge</i> considering that this is derived from the Total Generation Cost incurred by the DU.
	MERALCO	<p>The proposed formula for TGC and TPG (which are net of power distributed to TOU customers and the generation costs associated with these customers) assumes that there is a separate back-to-back energy supply sourcing for TOU customers.</p> <p>MERALCO's TOU retail rates are based on the average cost of power sourced from TSC, IPP supply contracts, and WESM with no differentiation as to whether it is going to be supplied to TOU customers or not.</p> <p>In Formula 1, the mathematical notation should be improved to reflect properly the references to indices – the index i was used both for month and source of power.</p> <p>Special programs and Sale for Resale Agreements are not defined.</p>	<p>Recommend the following definitions:</p> <p>GC i to n = The Generation Costs in Pesos from source of power i through source of power n for the test period coming from TSC, supply contracts, WESM purchases, and distribution utility-owned generation facility, if such facility runs on a more or less continuous basis to meet the normal power demand of the DUs' system as determined by the Commission, excluding the cost pertaining to:</p> <ul style="list-style-type: none"> a. power distributed to customers under DU's special programs (customers with separate back-to-back energy supply sourcing); and b. power distributed to customers under a Sale for Resale Agreement. <p>TPG = Total Purchases and Generated in kWh for the test period net of kWh distributed to customers under special programs (customers with separate back-to-back energy supply sourcing) and Sale for Resale Agreements.</p>
		<p>The formula is for the generation charge of Non-TOU customers as the purchases pertaining to TOU is deducted from both generation cost and kWh purchases. However, such formula will result in under-recoveries as shown in the following hypothetical sample computation.</p> <p>GIVEN: KWh Purchased Breakdown:</p>	<p>Proposal: Compute for the Generation Cost per kWh including the TOU cost and volume and then compute for the rate of non-TOU through the following formula:</p> $\frac{\text{Total GC of Sales (TGC}_S\text{)} - \text{Total GC of TOU Sales (TGC}_{\text{TOU}}\text{)}}{\text{Non-TOU kWh Sales (kWh}_{\text{N-TOU}}\text{)}}$

		<p>KWH Sales</p> <table border="0"> <tr> <td>Regular (Non-TOU)</td> <td>375</td> <td></td> </tr> <tr> <td>TOU</td> <td><u>75</u></td> <td>450</td> </tr> <tr> <td>System Loss</td> <td></td> <td><u>50</u></td> </tr> <tr> <td>TOTAL</td> <td></td> <td><u>500</u></td> </tr> </table> <p>Total GC (excl. Special Programs) - P1,000.00 Total Purchases (excl. Special Programs) - 500 kWh Total Gen Cost/kWh - P2.00/kWh</p> <p>Breakdown of Total Gen Cost</p> <table border="0"> <tr> <td>KWh Sales</td> <td>450 X P2.00</td> <td>-</td> <td>P900.00</td> </tr> <tr> <td>KWh Losses</td> <td>50 X P2.00</td> <td>-</td> <td><u>P100.00</u></td> </tr> <tr> <td>TOTAL</td> <td></td> <td>-</td> <td><u>P1,000.00</u></td> </tr> </table> <p>TOU kWh Sales - 75 kWh TOU Generation Cost - P100.00 TOU Gen Charge/kWh - P1.3333/kWh</p> <p>ERC Proposed Formula – Generation Charge for Non-TOU: <u>Total Generation Cost – TOU Gen Cost</u> / <u>Total kWh Purchased – TOU kWh</u> = $\frac{P1,000 - P100}{500\text{kWh} - 75\text{kWh}} = P2.1176/\text{kWh}$</p> <table border="0"> <thead> <tr> <th></th> <th><u>KWh Sales</u></th> <th><u>Gen Chg/kWh</u></th> <th><u>Gen Chg Amount</u></th> </tr> </thead> <tbody> <tr> <td>Non-TOU</td> <td>375</td> <td>P2.1176</td> <td>P794.12</td> </tr> <tr> <td>TOU</td> <td><u>75</u></td> <td><u>P1.3333</u></td> <td><u>P100.00</u></td> </tr> <tr> <td>Total</td> <td><u>450</u></td> <td><u>P1.9869</u></td> <td>P894.12</td> </tr> </tbody> </table> <p>Generation Cost of kWh Sales <u>P900.00</u> Under-Recovery <u>P 5.88</u></p>	Regular (Non-TOU)	375		TOU	<u>75</u>	450	System Loss		<u>50</u>	TOTAL		<u>500</u>	KWh Sales	450 X P2.00	-	P900.00	KWh Losses	50 X P2.00	-	<u>P100.00</u>	TOTAL		-	<u>P1,000.00</u>		<u>KWh Sales</u>	<u>Gen Chg/kWh</u>	<u>Gen Chg Amount</u>	Non-TOU	375	P2.1176	P794.12	TOU	<u>75</u>	<u>P1.3333</u>	<u>P100.00</u>	Total	<u>450</u>	<u>P1.9869</u>	P894.12	<p>Where: Total GC of Sales = $\frac{\text{Total GC}}{(\text{kWhS}_{\text{TOU}}) \text{ and non-TOU } (\text{kWhS}_{\text{N-TOU}})} \times \text{kWh Sales to TOU}$</p> <p>Non-TOU kWh Sales = Total kWh Sales – TOU kWh Sales</p> <p><u>Computation using Proposed Formula:</u></p> <p>Gen Charge of Non-TOU = $(P900 - P100) / 375 = P2.1333 / \text{kWh}$</p> <p>Check (Recovery of Total Generation Cost):</p> <p>KWh Sales</p> <table border="0"> <tr> <td>Non-TOU</td> <td>375 kWh X P2.1333</td> <td>=</td> <td>P800.00</td> </tr> <tr> <td>TOU</td> <td>75 kWh X P1.3333</td> <td>=</td> <td><u>P100.00</u></td> </tr> <tr> <td></td> <td>450 kWh @ P2/kWh</td> <td></td> <td>P900.00</td> </tr> <tr> <td>System Loss</td> <td>50 kWh @ P2/kWh</td> <td></td> <td><u>P100.00</u></td> </tr> <tr> <td>Total Generation Cost</td> <td></td> <td></td> <td><u>P1,000.00</u></td> </tr> </table>	Non-TOU	375 kWh X P2.1333	=	P800.00	TOU	75 kWh X P1.3333	=	<u>P100.00</u>		450 kWh @ P2/kWh		P900.00	System Loss	50 kWh @ P2/kWh		<u>P100.00</u>	Total Generation Cost			<u>P1,000.00</u>
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	<p>Region 10 FIMAP AMRECO</p>	<p>The Generation Costs in Pesos should be properly defined since NPC bill includes adjustments pertaining to GRAM and ICERA, Power Act Reduction plus Value Added Tax.</p>	<p>Proposed definition for TGC: “TGC” = is the Total Generation Charge <u>which includes adjustments pertaining to GRAM and ICERA (including recently approved adjustments)</u> calculated as follows: xxx.”</p> <p>Proposed formula for TGC: Total Generation Charge be computed as follows: BGC + (DAA_L x TP_{kWh})</p>																																																												

			<p>Where: BGC – Total Basic Generation Charge for the test year DAA_L – Approved Deferred Accounting Adjustments for NPC and NPC-SPUG that is to be implemented in parallel with the the DUs annual rates.</p> <p>TP_{kWh} – Total Purchases in kWh for the test period Total Generation Charge be computed as follows:</p> <p>The Commission should properly define Generation Costs in Pesos. NPC bill includes adjustments pertaining to GRAM and ICERA, Power Act Reduction plus Value Added Tax, so the proper definition of the Total Generation Charge..</p> <p>Further, should the Commission find merit on adjusting NPC filing schedule earlier in order to make possible for DUs to include new DAAs in its annual passed-on rates, as discussed in letter b of this paper,</p> <p>The Commission should allow the Povision of two (2) sets of Annual Generation Rate (AGR) for ECs in Mindanao. ECs in Mindanao, mostly supplied by hydro power have two (2) sets of Generation Rates. Generation Rate on dry season (January-June) is higher than that on wet season (July-December). Using the average generation rate, the EC will subsidize generation cost during the dry season and recover it during the wet season. Due to insufficient working capital, with a six (6) month lag in the recovery, this is unfavorable to ECs.</p>
<p>Article 2 Section 4 Calculation of Annual Transmission Rate</p>	<p>NASECORE</p>		<p>Nasecore proposes to have a one rate policy for all classes of DU customers just like in the generation charge component so that there will only be one formula in calculating Average Transmission Rate.</p>

	ILPI	<p>Is the billing determinant based on sales or purchases?</p> <p>What is the available option for DUs who do not have the capacity to determine the coincident peak (CP) Demand per customer class which is required in the computation of Annual Transmission Rate?</p> <p>Can the DU use the Demand Allocation Factor from the last approved unbundled rates even if it is not the CP demand? If so, this should be provided for in the Rules.</p>	<p>TGC should be defined as the Current Transmission Cost over the corresponding energy (kWh) in computing Current Transmission Rate (TR) considering that the billing determinant in the Current Transmission Cost is in kW and not in kWh.</p> $\text{kWhS}_{\text{year-1}} = \text{kWh billing determinants for the test period.}$
	MERALCO		<p>Options:</p> <ol style="list-style-type: none"> 1. Completely pass-through Transco's charges since this is not very volatile month-to-month. 2. Use the ERC-approved Transco's TWRG rate for the current regulatory year. 3. Apply also the concept of annual filing to transmission charge so as to share the risk with Transco. <p>Further, ERC should conduct and publish results of audit of Transco's ancillary services charges.</p>
Article 2, Section 4, FORMULA 2.A	Region 10 FIMAP/ AMRECO	<p>"TR" should refer to the highest Transmission Rate of the 12 mos. test year. This would assure the EC with enough reserve fund for any upward movement in Transmission Rate during the recovery period. In addition, the total transmission cost should include excluded services such as connection, residual sub-transmission and ancillary charges.</p>	<p>"TR" = refers to the <u>highest Transmission Rate (including ancillary charge) of the 12 months comprising the test year</u> calculated by dividing said transmission cost (<u>including connection and residual sub-transmission charges</u>) by the corresponding purchased kWh for the month.</p>
			<p>Proposed amendments:</p> <p>(1) "TR" = refers to the <u>highest Transmission Rate (including ancillary charge) of the 12 months comprising the test year</u> calculated by dividing said transmission cost (<u>including connection and residual sub-transmission charges</u>) by the corresponding purchased kWh for the month.</p> <p>"TR" should refer to the highest Transmission Rate of the 12 mos. test year. This would assure the EC with enough reserve fund for any upward movement in Transmission</p>

			<p>Rate during the recovery period. In addition, the total transmission cost should include excluded services such as connection, residual sub-transmission and ancillary charges.</p> <p>The application of the annual adjusted MAR of the TRANSCO should be aligned with the DUs.</p> <p>If given merit, a lag of one or two months is manageable. The timeline of TransCo's implementation of the adjusted MAR and the DUs annual transmission Rate does not coincide, and therefore increases or decreases in Transmission Charges will not be captured in the DUs annual rate.</p> <p>The Commission may consider however to account for a more aligned TR that should have effected the annual adjusted MAR of TransCo.</p>
Article 2, Section 4, FORMULA 2.B & 2C	MERALCO	The Annual Transmission Rate is expressed in Peso/kW. However, the formula uses kWh in deriving the Annual Transmission Rate.	
Article 2, Section 5	DLPC	On Formula 3, since 50% of the PFD was deducted in the computation of the AATRn, this will result to under-recoveries.	
	VECO	On Formula 3, the Transmission Cost portion in the System Loss Rate will not be fully recovered since 50% of the PFD was deducted in the computation of the AATRn.	Replace the definition of AATR in Section 5 Formula 3 as: AATRn = the annual transmission rate computed using the formula in Section 4.1, page 5.
	MERALCO	<p>MERALCO's TOU retail rates are based on the average cost of power sourced from TSC, supply contracts, and WESM with no differentiation as to whether it is going to be supplied to TOU customers or not.</p> <p>Allowable kWh losses are computed as a percentage of total kWh purchases to include both for regular sales and for special programs. These losses should all be accounted for in the formula. The pricing of system loss is generally uniform for all. However, there are special programs wherein system losses are treated differently and therefore,</p>	<p>We recommend redefinition of the following:</p> <p>TGR = Total Generation Rate calculated as follows:</p> $TGR = \frac{TGC}{TPG}$ <p>Where: TGC = Total Generation Costs calculated under Section 3 hereof. (As re-defined in our proposal for Article 2, Section 3)</p>

		should be excluded from the computation of the loss rate chargeable to all customers. The use of the gross-up factor (U), makes it difficult to incorporate such intricacies in the formula.	<p>TPG = Total Purchases and Generated in kWh for the test period net of kWh distributed to customers under special programs (with separate back-to-back energy supply sourcing) and Sale for Resale Agreements.</p> <p>PROPOSAL:</p> <p>a. Either we translate the U into its original form which is “kWh losses and company use / kWh sales” or we opt for 2 formulas:</p> <p>a) for DUs without special system loss charge for special programs which is the original formula and b) for DUs with special system loss charge for special programs which would be the modified formula as follows:</p> $ASLR = \frac{[(TGR + AATR) \times SL \& Co. Use kWh] - SL - special_programs}{Total kWh Sales - kWh Sales for Special Programs}$ <p>Where:</p> <p>SL for Special Programs = SL Charge Rate for Special Programs X Special Programs kWh Sales</p>
	AMRECO	On Article 2, Section 5 Formula 3. <i>AATR refers to the Annual Average Transmission Rates in Peso/kWh.</i>	<p>Transmission Cost (TC) be computed using the historical billing determinants (kW and kWh) multiplied with the latest (in parallel implementation) TransCo Rates.</p> <p>The computation of system loss charge uses historical Annual Average Generation Cost and Annual average Transmission Cost.</p>
Article 3, Section 1 Calculation of over or under recoveries	DLPC/ILPI	Re the over or under recoveries shall be reflected as a separate line items in the DUs' bills.	<p>No need for this. The reports to the ERC can contain all these details, for the ERC's monitoring or confirmation purposes. This will just make the bill format longer, more complicated and confusing for the reader.</p> <p>It is proposed that the adjustments be integrated into the rates itself, as with the existing AGRA, TRAM, SLR and LRA.</p>

Article 3, Section 2	MERALCO		<p><u>MERALCO suggest consistency in the formulas to derive the actual recoveries.</u></p> <p>1. Actual Recoveries</p> <p>Recoveries for Generation and System Loss Charges are revenue data directly picked up from DU;s records while those for Transmission Charge and Lifeline Rate Subsidy are computed based on prescribed formulas. For consistency, we suggest to either pick up revenue (or subsidy for Lifeline Rate Subsidy) data from company records (customer billing information) after ensuring that the procedures followed by the DU is in accordance with accepted principles in recognizing revenues, or have a formula in the calculation of recoveries for all affected rate components. The prescribed formulas are as follows:</p> <p>a. <u>Generation Charge</u> Data picked up from company records: GRB (Gross Revenue Billed) or the total revenues billed to customers ...</p> <p>b. <u>Transmission Charge</u> Formula: TCR or Transmission Cost Recoveries during the recovery period to be computed as follows: $\Sigma [(Transm. Charge in P/kWh \times kWh Sales) + (Transm. Charge in P/kW \times kW billing demand)]$</p> <p>c. <u>System Loss Charge</u> Data picked up from company records: ApSLR or the system loss revenues for generation and transmission billed to customers ...</p> <p>d. <u>Lifeline Rate Subsidy</u> Formula: Total Subsidy = Non-lifeline kWh x Lifeline Rate Subsidy/kWh</p>
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			<p>2. Transmission Cost Formula</p> <p>a. <u>Transmission Charge Rate</u> (Formula 2) Transmission Cost / corresponding kWh purchased</p> <p>b. <u>System Loss Charge Rate</u> (Formula 3 - AATR Formula) Total Transmission Cost – (Power Factor Discount X 50%)</p> <p>c. <u>Transmission Over or Under Recovery</u> (Formula 6 – ATC formula) Total Transmission Cost – (PF Discount X 50%)</p> <div style="border: 1px solid black; padding: 5px; margin: 5px 0;"> <p>Note: PF discount is the remaining discount provided by TransCo that was not provided to customers. The utility gets to keep ½ of the remaining discount but has to return the other half. That is why, it is deducted from the transmission cost in the formula.</p> </div> <p>d. <u>System Loss Over or Under Recovery</u> (Formula 7 – AcSLC formula)</p> <p>TC = actual net transmission cost ... (is this net of the PF discount?)</p>
	Region 10 FIMAP/ AMRECO	“ALGR” should also be defined to include actual GRAM and ICERA charges.	“ALGR” = Allowable Generation <u>which includes actual charges for GRAM and ICERA during the recovery year period.</u>
	CEPALCO	<p>Clarification on the Divisor in the Over/(Under) recovery formula</p> <p>a. For GOUR: BD = billing determinant in kWh for the recovery period</p> <p>b. For TOUR: kWh sales for customer class N for the month i</p> <p>c. For SLOUR: TPG = Total purchased and generated in kWh for the test period</p> <p>d. For LSOUR: kWh = sales of the non-lifeline customers</p>	
	DLPC	On Formula 6, 50% PFD is included in the under(over)-recovery but not included in Formula 2.A, 2.B, 2.C which will definitely result to over-recoveries every year.	

	VECO	TCRn or the Transmission Cost Recoveries should be based on the actual total transmission amount billed to customers.	Replace TCRn with the actual total Transmission revenues billed to customers. It should be same with the GRB (page 11) in the GOUR formula in which the total revenues billed to customers is being used.
	CEPALCO	The rTOUR is made as a divisor, in addition to kWh Sales, to the net Allowable Transmission Cost.	rTOUR should be added to the entire formula and not as a divisor, hence Formula 6 will now become: $\text{TOUR}_n = \frac{(\text{ATC}_N - \text{TCR}_N)}{\text{EkWh Sales}_N} + \text{rTOUR}$
	DLPC	On Formula 5, the variable Si is not defined in the formula.	For clarification, please define.
	MERALCO	<p>With this proposal to set various pass-through rates on an annual basis, DUs would have the additional burden of carrying costs associated with the delay in the recovery of these costs which were already advanced by the DU.</p> <p>In formula 5, Si is not defined.</p> <p>If GOUR does not include carrying cost, then any portion of the Prompt Payment Discount should not be returned to customers. PPD should also be applicable to Meralco.</p> <p>Does the presence of rGOUR in the formula means that the under/over recoveries will not be recovered within one year? Please clarify.</p>	<ol style="list-style-type: none"> 1. Define the variable <i>Si = Total kWh sales for the month net of kWh distributed to customers under special programs (with separate back-to-back energy supply sourcing) and Sale for Resale Agreements.</i> 2. Replace the <u>recovery period</u> in the definitions of i – n, TPG and PCR with <u>period subject for recovery</u> 3. GRB to be defined as “Total <i>generation</i> revenues billed to customers except those associated with special programs (with separate back-to-back energy supply sourcing) and Sale for Resale Agreements. 4. The Generation under/ (over) recovery shall include a carrying cost to be defined by Finance.
	MERALCO	<p>The TOUR or the Transmission rate over/under recovery is calculated per customer class. This assumes that under recoveries are monitored on a per customer class basis. The problem is that Transco charges only on transmission charge and the cause of the under recoveries is how it is allocated to the different customer classes. We should simulate if the proposed formula will work or ask ERC for examples.</p> <p>Keeping the TOUR formula parallel with GOUR (Formula 5), the value rTOUR should be added to the difference between the allowable and transmission cost and the transmission revenue (all in the numerator) before dividing with the billing determinant of the particular customer</p>	<p>We recommend the formula for TOUR_N to read as follows:</p> <p>FORMULA 6</p> $\text{TOUR}_N = \frac{(\text{ATC}_N - \text{TCR}_N) + \text{rTOUR}}{\text{BD}_N}$ <p>where:</p> <p>rTOUR = refers to under/(over)-recoveries on recovered transmission cost during the recovery period in</p>

		<p>class in kWh for the recovery period. Similarly, in computing for the ATC, the transmission costs less 50% power factor discount divided by the total kWh purchases then multiplied by the kWh sales should be computed on a monthly basis first before summing over the <u>period subject for recovery</u>.</p>	<p>PhP/kWh</p> <p>$BD_N =$ Billing Determinant in kWh for the recovery period year for customer class N</p> <p>The proposed ATC be:</p> $ATC = \Sigma \left[\frac{TC_i - (PFD_i \times 50\%)}{TP_i} \times Si \right] \times CPN$ <p>where:</p> <p>$BD_N =$ Billing Determinant in kWh for the recovery period year for customer class N</p> <p>i = refers to month 1, month2 until month n of the <u>period subject for recovery</u></p> <p>The Transmission over/under recovery shall include a carrying cost to be defined by Finance</p>
Article 3, Section 3	DLPC	On Formula 7, is the Actual Net Transmission Cost (TCi) already net of the 50% PFD, as in Formula 3?	For clarification, please confirm.
	VECO	On Formula 7, the SLOUR formula is erroneous, since AcSLC is in P/kWh and it will be deducted by ApSLR which is in Pesos.	Change the formula of AcSLC to : $\sum_{i \text{ to } n} \{[(GC_i/TPG_i) * kWh_{sold}] / [1-SL_i]\} + \sum_{i \text{ to } n} \{[(TC_i/TP_i) * kWh_{sold}] / [1-SL_i]\}$
	CEPALCO	There is inconsistency in the period that should be applied in the computation of AcSLC. The Generation Costs in Pesos (GC) pertains to the recovery period while the Total Purchases and Generated in kWh (TPG _i) pertains to the test period.	
	CEPALCO	<p>The definition of SL in the AcSLC formula does not state what unit, whether in kWh or as a %?</p> <p>SL = Actual Monthly System Loss or the cap whichever is lower during the recovery period.</p>	Based on the formula, SL should be in kWh.
	CEPALCO	CEPALCO would like to make a clarification on the use of the actual monthly System Loss (%) in the Calculation of the System Loss Over or Under Recovery (SLOUR).	<p>Clarification on the Divisor in the Over/(Under) recovery formula</p> <p>e. For GOUR: BD = billing determinant in kWh for the recovery period</p>

			<p>f. For TOUR: kWh sales for customer class N for the month i</p> <p>g. For SLOUR: TPG = Total purchased and generated in kWh for the test period</p> <p>For LSOUR: kWh = sales of the non-lifeline customers</p>
	MERALCO	The use of monthly system loss for under-/over- recovery computations will not be able to capture alignment of billing periods for the wholesale and retail markets resulting to inaccurate system loss figures.	
		<p>The existing formula for AcSLC using the “actual monthly system loss” is misleading in the sense that the kWh sales for any particular month is, in reality, NOT the “actual” sales for that month. This is because the kWh sales (output) for any particular month do not correspond with the kWh generated and/or purchased (input) for the same period. Due to the necessity of spreading-out the retail meter-reading (for purposes of cost efficiency) over the month, what we consider as kWh sold for any particular month is actually the partial kWh consumption of customers spread over the current month and the previous month.</p> <p>Computing for the “actual” system loss for the month involves using the average daily consumption of individual customers and re-aligning these to correspond with the actual measured input thus introducing errors of estimation.</p> <p>The mismatch between the input and output energy is best addressed by using the system loss over the whole <u>period subject for recovery covering 12 months ending in Dec. 31.</u> The actual kWh sold for this 12-month period would closely approximate the “actual” energy consumption of the DU’s customers which corresponds with the input energy for the same period. Using actual 12-month input and output energy values instead of apparent (monthly system loss based on kWh sold for the month) or estimated (monthly system loss based on a re-aligned kWh consumption for the month) would be more appropriate in order to ensure the full recovery of system loss costs.</p> <p>In addition, the mismatch in meter reading schedules causes fluctuations in the monthly System Loss figures where the DU can be penalized on</p>	<p>We recommend the formula for AcSLC to read as follows:</p> <p>AcSLC = Allowable System Loss Cost incurred during the <u>period subject for recovery</u> computed as follows:</p> $AcSLC = \sum_{i \text{ to } n} \frac{GC_i}{TPG_i} + \frac{TC_i}{TP_i} \times SL \times TPG_{T OT_i}$ <p>where:</p> <p>TPG_{TOT_i} = Total purchased or generated energy for the period subject for recovery</p> <p>SL = Annual Actual System Loss (January to December) or the cap whichever is lower plus annual actual company use or the 1% cap whichever is lower, during <u>the period subject for recovery</u>.</p> <p>Proposed formula for SLOUR:</p> $SLOUR = \frac{(AcSLC - ApSLR) + rSLOUR + cSLR}{BD}$

		<p>the month when the system loss exceed the 9.5% cap even when the resulting Annual System Loss is far lower than the cap.</p> <p>Even the OATS Rules, Module F(AIII)5.2, recognizes that 12 months is an appropriate period for computing system loss factors. Moreover, it is also the practice even in other countries such as Australia, New Zealand and Ireland.</p> <p>The formula for AcSLC should be multiplied by the actual sales for the <u>period subject for recovery</u> to come-up with the total allowable System Loss Cost..</p> <p>Also, similar to the GOUR formula (Formula 5) the SLOUR divisor should also be BD instead of TPG.</p> <p>Does the presence of sLOUR in the formula means that the under/over recoveries will not be recovered within one year? Please clarify.</p>	<p>where:</p> <p>BD= Billing Determinant in kWh for the recovery period year net of kWh distributed to customers under special programs and Sale for Resale Agreements.</p> <p>The System Loss over/under recovery shall include a carrying cost (to be defined by Finance).</p> <p>The definition of SL in the AcSLC formula as shown below, does not state what unit SL is (%? KWh?):</p> <p>SL = Actual Monthly System Loss or the cap whichever is lower during the recovery period</p> <p>Proposal – as this should be a kWh figure as what is computed is the allowable system loss cost incurred, the definition should include kWh..</p>
	PEPOA	<p>It seems the Commission is maintaining the policy of considering the monthly system loss in the application of the rule on the loss caps as the proposed rule still defines System Loss as the ACTUAL MONTHLY SYSTEM LOSS OR THE CAP WHICHEVER IS LOWER in the proposed system loss over/under-recovery formula. Although the Commission is proposing a once a year computation of the system loss charge rate, the Commission insists on the actual monthly system loss in the calculation of the over/under-recovery of system loss. In other words, even if the annual system loss rate considers the annual system loss, it will still be the actual monthly system loss rate that will matter in the end as this will be the basis for the determination if the DUs over or under bill customers on system loss recovery.</p> <p>PEPOA’s major concern with the policy adopted by the Commission in using monthly system loss statistics exposes the DU's to incomplete recovery of generation costs because these monthly system loss statistics are distorted by the differences in the billing periods between the wholesale and retail markets. PEPOA submits that using annual figures (including the 12-month moving average) is a better and fairer measure of DU's losses.</p>	

<p>Article 3, Section 4</p>	<p>CEPALCO</p>	<p>We request clarification on the definition of <i>i</i>, particularly on the fixing of the billing determinant as the kWh sales of the non-lifeline customers for January – December.</p> <p>Based on the timelines of the filing, DUs will not be able to charge the Fixed Annual Rate on its January billing. At the earliest, the new fixed annual rate will take effect on the February billing yet.</p>	<p>The billing determinant should not be fixed at January – December of the recovery period but should coincide with the actual recovery period.</p>
	<p>CEPALCO</p>	<p>On Formula 8, LSC was defined as the Lifeline Rate to non-lifeline customers (as provided in the Unbundling Decision of the DU). We request clarification on the phrase in parenthesis since the Lifeline Rate charged by the DUs to the non-lifeline customers are no longer those approved during rate unbundling that already adjusted on a monthly basis based on the ERC Guidelines on the Calculation of Over/Under Recovery in the Implementation of Lifeline Rates by Distribution Utilities.</p>	
	<p>NASECORE</p>		<p>Nasecore proposes another paragraph after the word <i>Ncust and D</i> and before Article 4.</p> <p>That any over/under recovery on the lifeline subsidy must be borne solely by the subsidizing segments and not the subsidized customers.</p>
	<p>MERALCO</p>	<p>In parallel with GOUR (Formula 5), the LSOUR divisor should be BD_{NL} for the recovery period year instead of kWh_{NLi}.</p> <p>Also, the total subsidy charged to non-lifeline customers should be the one deducted from the total lifeline discounts given and not vice-versa. In doing so, a positive LSOUR (meaning under-recovery for collection) would result when the actual subsidy collected from non-lifeline customers is less than the total discount given to lifeline customers.</p>	<p>The LSOUR should be as follows: $LSOUR = \text{Total lifeline Rate Adjustment} / BD_{NL}$ where: $BD_{NL} = \text{Billing Determinant in kWh for the recovery period year}$ The Total Lifeline Rate Adjustment should also be: $\text{Total Lifeline Rate Adj.} = \sum_{i=1 \dots n} (\text{Total Discount}_i - \text{Total Subsidy}_i)$ The definition of LSC in the Total Subsidy formula states that: LSC = lifeline rate to non-lifeline customers (as provided in the unbundling decision) Proposal: Include in “...as provided in the unbundling decision”, the statement, “or as computed in accordance with the formula set in Formula 4 of these rules”.</p>

Article 4 Least Cost Incentive Mechanism	NASECORE		Change the word REWARD to PENALTY thus, it will be LEAST COST PROCUREMENT PENALTY MECHANISM
Article 4, Section 1	NASECORE		Nasecore proposes to replace the word <i>reward</i> with <i>penalty</i> from the sentence, thus it will be read as: Section 1. Least Cost Procurement Incentive Eligibility - The penalty shall only apply to DUs which procure.....
Article 4, Section 2	NASECORE		Nasecore proposes that an amount must be established for penalty instead of the mechanism to compute the reward because there is already a law provided by EPIRA under Section 23 that a DU must supply electricity in a least cost manner.
	MERALCO	<p>The Least Cost Procurement formula (Article 4) puts a cap on recoverable generation costs. The constraints imposed include the 10% limit on WESM purchases and the Benchmark rate equivalent to the Average TSC rate. (More discussion and requests for clarification in the comments under Article 4)</p> <p>This provision will only put further pressure on the DU since this will result in cost under-recoveries over which it has no control.</p> <p>The amount of Net settlement Surplus (NSS) should be considered in this calculation. It is unfair to penalize the DU procuring from WESM initially, when NSS corresponding to the same supply period will be returned in the following quarter.</p> <p>We would like to seek clarification on how the benchmark rate was established?</p> <ul style="list-style-type: none"> • If this is equivalent to NPC’s average TSC rate – is the average based on the weighted average TOU rate calculated on the actual hourly offtake of the DU from NPC? • Is GRAM/ICERA included (note that GRAM/ICERA represents NPC’s under/over-recoveries in previous time periods and would not necessarily reflect actual costs in the 	<p>Harmonize the existing provisions of the EPIRA (sections 45-C and 67), WESM Rules (Section 10.2.4.4.) and EPIRA IRR (Rule 30, section 5 and Rule 11, section 5), in a manner that would give effect to each and every provision thereof. Meralco believes that there is clearly no legal basis to conclude that the “mandated WESM purchases” should be capped at 10% as this will run contrary to the intent of the law and the WESM rules to encourage spot market development. To impose the cap of 10% would render inutile the provision of the WESM rules mandating that DUs shall source from WESM for the first 5 years of its operation “at least 10% of its total demand”. Further, it creates serious operational difficulties for the DUs, beyond the realm of reasons, and which could not have been contemplated by law, to project and source exactly 10% of its total demand from WESM, such that if it exceeds 10%, its cost of power for the excess over NPC-TSC rate will be disallowed whereas if it purchases less than 10%, it can be accused of violating the WESM rules and therefore becomes also vulnerable to suit if WESM prices turn out to be cheaper than NPC-TSC rates.</p>

		<p>current year, hence, will introduce distortion on the benchmark rate)?</p> <ul style="list-style-type: none"> • What were the cost assumptions when the TOU rate was calculated (e.g., generation mix, fuel cost, foreign exchange rate, CPI)? Are these assumptions still valid? <p>We believe that the TSC rate is not a market-efficient rate, as this incorporates a return for NPC and therefore it is unfair to use this as a benchmark for least cost procurement.</p> <p>Is the Benchmark rate co-terminus with the TSC?</p> <p>Rule 30 Section 3(g) of the EPIRA IRR states that “the limitation on the recovery of the generation component costs by A DU shall apply only to the equivalent quality and quantity of electricity still available to the DU from NPC.” With the current level of NPC’s privatization, what is this quantity? Will this still be valid in 2009?</p> <p>Will effects of VAT be considered in comparing rates? Will there be incentives/penalties for taking less than the contracted volumes from eligible contracts and 10% WESM volume?</p> <p>How is Contracted Energy defined? Is this equivalent to the IPP’s Minimum Energy Quantity or the IPP’s total capacity (NDC) X 8760 hours? Note that under the IPP’s PPA, the kwh rate is discounted beyond MEQ (take note also of SR/SL bank gas and QPL Tline penalty).</p> <p>If the MEQ is 83%, does this imply that the MEQ is 83% on a monthly basis. Normal contract with IPPs are on an annual basis. There are months that IPP is on scheduled maintenance and MEQ is compensated on other months to reach the annual MEQ. System Operators sometimes curtail or increase IPP output for system security reasons. MEQ on a monthly basis is hard to set.</p> <p>How was the mandated purchases from the WESM equivalent to 10% of DU’s total energy requirement arrived at (what Rule applies)?</p>	<p>Proposed LCP formula:</p> <p>The Least Cost Procurement shall only apply to supply contracts entered into by DUs after the approval of the EPIRA-IRR. It shall be calculated based on the following formula</p> <p>LCP = (AEP – CE) x (BR – WAR_c)</p> <p>Where:</p> <p>LCP = Least Cost Procurement, expressed in absolute peso amount, refers to the reward or penalty which DUs shall earn or incur. It shall apply only to supply contracts entered into by the DU after the approval of the EPIRA-IRR</p> <p>AEP = Actual Energy Purchases from LCP-covered supply contracts, excluding TSCs and energy purchased under Special Programs, expressed in kWh.</p> <p>CE = Contracted Energy of LCP-covered supply contracts, excluding TSCs and energy purchased under Special Programs, expressed in kWh.</p> <p>BR = Benchmark Rate which is equivalent to the Average TSC rate.</p> <p>WAR_c = Weighted Average Rate paid by DU pertaining to the energy purchased in excess of the CE.</p>
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		<p>Mandated Purchases from WESM which is equivalent to 10% of DU's total energy requirement". Meralco wants clarification as to the legal basis for the proposed rule. Section 10.2.4.4 of the WESM rules clearly mandates that: "For the first five (5) years from the establishment of the WESM, <u>Distribution Utilities shall source at least ten percent (10%) of its total demand from the spot market</u>". This is consistent with section 45-C of the EPIRA which provides that: "<u>For the first five (5) years from the establishment of the wholesale electricity spot market, no distribution utility shall source more than ninety percent (90%) of its total demand from bilateral power supply contracts</u>". While Rule 30, section 5 of the EPIRA IRR provides for "<u>mandated purchases from WESM</u>", it did not specify that it should be 10%. In fact under Section 67 of the EPIRA, it is provided that the TSC "<u>shall be based on the projected demand of such utilities less any of their currently committed quantities under eligible IPP contracts as defined in Section 33 hereof</u>". This means that a DU must source all its power requirements, which were not covered by the committed quantities from its IPPs and the TSC, from WESM. This portion to be taken from WESM, provided it is at least 10%, is what is referred to as the "mandated purchases from WESM". It provides for a minimum but not the maximum. Thus, if a DU enters into another bilateral contract with a supplier, other than or instead of the WESM, at a rate that is higher than the TSC rate, the excess under the law shall be disallowed. The obvious purpose is to encourage market development. In fact, <u>the Rule 30, section 5 of the EPIRA IRR should be read in conjunction with Rule 11, Section 5, which provides for the Limits on Bilateral Supply Contracts by the DU. Said Rule states that: "A Distribution Utility may enter into bilateral power supply contracts subject to the provisions of Section 5 of Rule 30 on NPC Offer of Transition Supply Contracts and a review by the ERC."</u></p> <p>The EPIRA and WESM Rules both provide that the sourcing from WESM of at least 10% shall be effective only for the first five years from the establishment of WESM. It is not clear in the guidelines whether the "mandated WESM purchases" shall be required even after the period of 5 years from WESM operation.</p>	
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	PEPOA	<p>Incentives should be put in place to reward efficient distribution utilities who are able to reduce their system loss well below the cap</p> <p>The Commission would do well to reward distribution utilities who are able to reduce their system loss well below the cap provided by the law.</p>	

		<p>Right now, the Commission’s policy is to allow distribution utilities to recover only the actual system loss or the system loss cap, whichever is lower. Under this policy, there is no incentive for distribution utilities to drive down their system loss because all of the savings realized from the reduction of the system loss would be passed on the consumers anyway. The tendency therefore is to stay close to the cap even if there is still a great potential for the distribution utilities to reduce further their system loss.</p>	
Article 4, Section 3	MERALCO	<p>The reward/penalty scheme is not attractive. Assuming equal opportunity/risk probability, the scheme favors penalty (0.5 right – 1 wrong).</p> <p>The risk and reward mechanism should be proportional to adhere to fair and reasonable principle of risk and reward, that is, the higher the risks taken-on by the DU the higher the possible rewards that it can get. This is consistent with a more sustainable business environment that would attract investments in the power industry. This, in the long-run, is essential in achieving the objective of “ensuring and maintaining the quality, reliability, security and affordability of the supply of electric power.”</p> <p>The Draft Rules provides that “any cost inefficiency incurred by the DU due to non-prudent procurement of electricity shall be fully absorbed by the DU and shall not be allowed as pass through cost to its captive market.” It is not clear what constitutes “non-prudent” and “cost inefficiency”. There are occasions where despite the existence of a TSC or Power Supply Contract duly approved by ERC, a DU is constrained to get from WESM because of the unavailability of supply from TSC or IPP for reasons beyond the DU’s control (i.e, maintenance shutdown). Under the existing contracts with IPPs for example, this situation is classified as force majeure event where replacement cost is recoverable from consumers under the PPA approved by ERB/ERC. Would sourcing from WESM in such a case constitute “non-prudent”? Also, what happens if there is a <i>bona fide</i> dispute between a DU and its supplier over the existing power supply contract, which prevents the sourcing of power from the same supplier as ordered by ERC. As a result, the DU is compelled to source power</p>	<p>The term $\pm I_i$ should be + only since I_i already refers to reward (+) or penalty (-).</p> <p>In computing for the reward or penalty ($\pm I$), the multiplier to the LCP should be the same regardless of whether the LCP is less than or greater than zero.</p> <p>Reward/penalty should only be applied to volumes above contracted quantities for eligible contracts and mandated WESM quantities.</p> <p>The term "non-prudent procurement" should be clearly defined in a more definitive and measurable term.</p> <p>Meralco respectfully submits that “non-prudent” procurement should be limited to situations where the DU voluntarily and deliberately decides to procure power from a supplier knowing fully well that, at the time of procurement or nomination, the same will not result in least cost to its captive market. Other situations where a DU is constrained by force majeure, ERC Order, the refusal of supplier to negotiate for lower cost, or events outside of its reasonable control, to source from a supplier at a cost which turns out to be higher than the NPC-TSC rate, should not be classified as “non-prudent”. Otherwise, the same will, with due respect, constitute a deprivation of property without due process of law.</p>

		from WESM, which is the only available supplier, where prices are volatile. Would this constitute non-prudent if the price turns out to be higher than NPC-TSC rate?	As an alternative, Incentives/Penalties should be borne by the generator and not the DU's, who are merely price takers. The generators have the ability to manipulate and artificially set high prices in the WESM
Article 5 Filing and Resolution of the Applications	VECO	A Section which will ensure that ERC will act on the filings on a timely manner should be inserted.	Insert a section stating that : “After a DU submits its FOE, the ERC shall issue a resolution of the case within 60 days, otherwise the application is deemed final and confirmed.
	MERALCO	The first paragraph seems to be in conflict with the second paragraph. In the first paragraph, the DU's right for recovery will automatically be waived while in the second paragraph, ERC shall compute the recoveries, have a hearing and decide on it.	
	AMRECO	<p>On Article 5, Section 2. We propose deletion of the 1st sentence, par. 1, of Art 5, Sec 2, and suggest to revise the provision to read as follows: “The failure of the DU to file within the prescribed period, except for good cause shown, shall be subject to appropriate administrative and/or other actions against it pursuant to the Guidelines to Govern the Imposition of Administrative Sanctions in the Form of Fines and Penalties.</p> <p>Disqualification from claiming under recovery for a particular period due to a DU's failure to file would appear double jeopardy when such a DU will still be subject to sanctions in form of fines and penalties.</p> <p>Fines and penalties constitute enough deterrent or consequence as these are enough to affect the financial position of ECs. To deny claim on any under recovery as an added punishment or consequence may not be reasonable when the Commission will still cause the calculation of such DUs annual rates and over/under-recoveries.</p>	
Article 5 Section 3 Referral to Accredited Auditors		<p>Clarification is sought regarding the duties and responsibilities of the accredited auditor:</p> <p>a. How soon is the accredited auditor expected to file his report with the ERC and copy furnish the DU?</p>	<p>The Commission should first conduct an audit of ancillary services provided by NPC to Transco.</p> <p>Rules on the auditors' selection/accreditation process, qualifications, code of conduct, and duties and responsibilities should be established.</p>

		<p>b. What are the remedies of a DU should it find the report or a section thereof objectionable? Will the DU be given the opportunity to question the report? If so, in what manner should the DU express its objections?</p> <p>c. Will the ERC impose sanctions of auditors who fail to file their report on time?</p>	<p>Cost of services of the auditors and all valid expenses should be specifically stated in the formula for over or under recoveries.</p> <p>Rather than ERC choosing from the list of accredited auditors, why not let the DU choose or just raffle it out.</p>
Article 5, Section 1 Schedule for Filings	DLPC		The ERC in this portion must specify that the AGRA, TRAM and existing lifeline rates are still applicable until such time that they approve the new rates.
	MERALCO	The filing is not clear whether the DU should compute the rates for a calendar year (Jan to Dec) or up to the last month before the deadline of filing. In the case of Luzon DUs, April 1 to 30 is the set deadline, is the filing should be up to March billing month (April to March)?	<p>We suggest to The Commission to consider adjusting NPC filing schedule earlier in order to make possible for DUs to include new DAAs in its annual passed-on rates.</p> <p>The DUs will file annual pass-on rates based on historical cost. With the DUs filing earlier than the NPC and TransCo, DUs fail to capture any increases/decreases in the DAAs of the NPC and the Adjusted MAR of the TransCo which puts a one (1) year lag for the recovery/under-recovery of the true cost. The drafting of the rule will make possible for the Commission to take into account such increases/decreases by effecting NPC and TransCo's newly filed and approved DAAs, and annual adjusted MAR, respectively, in the formulas drafted, and thereby DUs to pass-on rates on a more parallel (lesser lag) basis.</p>
Article 5, Section 3 Referral to Accredited Auditors	DLPC	Why is there a need for these auditors where the ERC has its Investigation & Enforcement Division, which from the start, has one of its main functions the confirmation of pass-through charges? Are we saying that these auditors are more capable than the ERC staff? How could we assure the independence of these auditors? Will they also stand as witnesses?	If this hiring of accredited auditors pushes through, they should not be allowed to request documents/inspect books of accounts directly. All documents request must be coursed through the ERC. The DUs must be given the opportunity to consult/clarify with ERC any actions/requests/work program it finds not to be prescribed by the Commission.
	CASURECO IV	About the accredited auditors, will the DU's have the right to choose the auditor who will be hired, or it is the Commission be the one to assign said accredited auditor to DU's.	

Article 5, Section 4 Duty of the Accredited Auditors	DLPC CEPALCO	Completion of the Audit by the accredited Auditor.	We suggest providing a timetable for the Auditor to complete its audit on the books and accounts of the DU
	MERALCO	There is no clear deadline for the Accredited Auditor to complete its Audit report. Thus, it is not clear when to reckon the 5-day period within which the completed report shall be submitted to ERC.	Please specify a period for the completion of the Audit Report
Article 5, Section 6 Procedure and Requirements for Filing and Resolution of Applications		While the Draft Rules provides for the application of the Commission’s Rules of Practice and Procedure, to avoid confusion, a specific provision as to when the ERC must resolve applications filed under this Guidelines must be incorporated herein. Also, to prevent accumulation of under/over-recoveries, there must be specific provision as to what would happen if ERC fails to resolve within the period fixed by the Guidelines.	It is suggested that a provision be inserted which says that ERC shall resolve all applications within forty-five (45) days from the filing thereof, similar to GRAM Guidelines for DUs and NPC. All applications not resolved within said deadline should be deemed approved.
Article 5, Sections 8 to 10 Hearings	FIMAP (Region 10) AMRECO	In relation to Section 7 of Article 3, the non-applicability of pre-filing requirements should also extend to subsequent hearing inasmuch as we are only recovering a pass through cost. The rate adjustment of NPC for GRAM and ICERA had already been subjected to the pre-filing and subsequent requirement under ERC’s Rules of Practice and Procedures. The computation of the ECs for the annual generation cost, transmission cost, system loss, and lifeline subsidy rates including its subsequent true-ups will be subjected to audit by ERC’s accredited auditors under Section 3 to 4 of Article 3. Hence, there’s no need to undergo hearings since that would delay the implementation and recovery of cost by the ECs. The EC will just have to go on an information drive for its consumers at least one month prior to implementation of adjusted rates.	Deletion of Section 8 to 10.
Article 7, Section 3 Repealing Clause	MERALCO	Considering that several ERC guidelines will be affected by the implementation of the draft Rules, it is suggested for avoidance of doubt that the specific rules that will be repealed/modified by the draft Rules be enumerated.	It is suggested that the Repealing Clause be reworded as follows: “Section 3. Repealing Clause – The following Commission issuances, not being consistent with these Rules, are hereby repealed or deemed modified: a. AGRA; b. TRAM; c. Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by DUs” etc.

<p>General Comments</p>	<p>PEPOA, CEPALCO, MERALCO</p>	<p>1. The proposed rules run counter to the mandate of the EPIRA on structural and functional unbundling of electricity industry participants</p> <p>Section 36 of the Act and Rule 10 of its IRR mandate all electricity industry participants to structurally and functionally unbundle its business activities in accordance with the industry sectors provided under Section 5 of the Act, namely; generation, transmission, distribution and supply. The intention is to have a clear separation of accountabilities for each business sectors.</p> <p>With this proposed rules, DUs are bound to carry the costs of the other sectors of the industry, in total disregard to the said mandate of the EPIRA.</p> <p>The annual adjustment not only delays the recovery of costs but deprives the DU of providing the correct pricing signal to its customers. It even results to cross subsidization among industry sectors because the DU is forced to advance payment for its suppliers.</p> <p>Annual adjustment may also lead to price shocks as a result of accumulated under- recoveries which may also increase collection risks for the DU.</p> <p>2. The proposed rule is inconsistent with our common advocacy for an automatic cost-recovery mechanism which the Honorable Commission and the DU jointly fought and won through the amendment of Section 4e, Rule 3 of the IRR of the EPIRA</p> <p>The amendment of Section 4e enumerates the specific cost-recovery mechanisms that are exempted from the pre-filing and hearing requirements. Hence, any cost recovery mechanism that will be adopted by the ERC which were not included in the list will not be exempted from the Section 4e requirements.</p> <p>Basing from previous experience, getting approval for amendments of a provision of law is a long and tedious process. Besides, in this case, it will unnecessarily open the entire Section 4e amendment to another</p>	
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round of debate and scrutiny especially by those who opposed it earlier.

In effect, this proposed rule will bring us back to the very procedure that we jointly fought hard to avoid and we will again face the tedious and costly process of getting approval for what should have been an automatic cost adjustment.

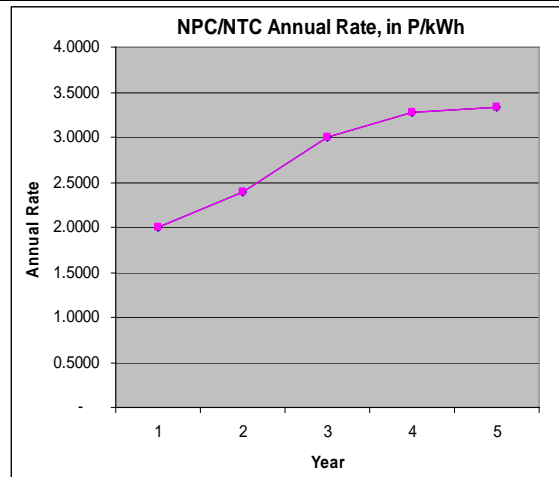
3. The proposed rule is discriminatory to the Distribution Utilities

We agree and support the objectives of the ERC as provided in Section 1, Article 1 of the draft rules. However, we suggest that these objectives be carried-out not at the expense of the Distribution Utilities.

As drafted, the rules put DUs in an unfair and precarious situation by letting it bear the costs of the other sectors of the electricity industry.

To illustrate, the annual trend for one of PEPOA’s member in Mindanao is that its average cost of power purchased from NPC and Transco is increasing at a rate ranging from P0.06/kWh to a high of P0.62/kWh, as shown in the Table and Graph below:

Year	Ave. NPC & Transco Rate, P/kWh	Increase, P/kWh
2003	1.9938	
2004	2.3883	0.3945
2005	3.0052	0.6169
2006	3.2766	0.2714
2007	3.3363	0.0597



The proposed rule will make this PEPOA member in Mindanao to absorb or bear these incremental costs for at least 15 months. In addition, recovery of said costs will not be done on a one-time billing but will stretch up to 12 months. This is financially disadvantageous to DUs especially where no working capital for purchased power was allowed by the ERC for this PEPOA member.

4. The proposed rules will create a wrong market signal

The proposed rules would lead the Philippine WESM to the experience of California Energy Market which failed during its early stages of deregulation.

One reason seen by several scholars in the failure of the California electricity market was the mismatched combination of deregulated wholesale prices with price controls in the retail market. Fixing the pass-through charges for the purpose of establishing stable rates to the end-use consumers would lead to wrong economic signals to the players in the generation sector. If the end-users cannot feel the “reality” of wholesale prices that changes every hour in the spot market, they would not adjust in their use of energy and this would lead eventually to supply shortages.

		<p>By law of demand and supply, shortage of electricity supply comes with rocketing prices as experienced in California. When demand is very inelastic (caused by stable prices at customer's end), the generators have the incentive to raise prices by creating artificial shortage of supply through withholding capacity. This market flaw is unseen when there is plenty of supply; but when power supply begins to tighten and the consumers still face stable prices, then problem arises.</p> <p>5. At the very least, carrying charges should be imposed</p> <p>As a last resort remedy, DUs should be allowed to impose carrying charges for any under-recoveries incurred. This is to compensate DUs for the cost of money used to advance the payments to its suppliers. To be fair, an interest should also be levied to any over-recoveries to compensate customers for payment made in advance.</p> <p>The annual cost consolidation and schedules prescribed for the filings and hearings extend the recovery by the DU to almost 1 ½ years.</p>	<p>It is recommended that, in order to minimize the impact of pass-through cost to the DUs in terms of cash flow, and to consumers in terms of carrying costs, the following schemes should be adopted:</p> <ol style="list-style-type: none"> 1. Retain the monthly recovery of pass-through charges 2. In the alternative, a quarterly recovery of pass-through charges may be allowed at the very least, provided that carrying charges are allowed to the DUs. 3. Or, annual computation may also be based on forecasted annual generation, transmission, system loss and lifeline charges with over-/under-recovery mechanism at the end of the forecast year, similar to the RDWR.
	MERALCO	The DUs will incur additional costs with a shift to annual filings or adjustments, including costs associated to filing expenses and services of ERC-appointed auditors	
	CEPALCO		<p>Harmonize the timetable for filing of this application with that of NPC's filing as proposed in the draft Rules for the recovery of DAA for Fuel and Purchased Power Costs and ICERA by NPC and SPUG.</p> <p>The harmonization is intended to ensure that any rate adjustment proposed by NPC will be incorporated in the DU's filing.</p>
	DLPC	<ol style="list-style-type: none"> (1) Lifeline rates are not pass-through rates. (2) AGRA/TRAM already established the rate-setting mechanism each period. This will result to retroactive rate-making. 	

		(3) Prior period adjustments on billing not taken into consideration as the concept covers only prior 12 months.	
	DLPC	Confirmation of the Generation, Transmission, System Loss, etc. Rates Under AGRA, TRAM, prior to the effectivity of these one-time rates	ERC should release ahead of these 1-time filing rules. The draft Rules was silent on the true-up for transmission from the time of unbundling to the last month prior to the TRAM implementation, and during the TRAM era to the last month prior to the implementation of this 1-time rates. For clarification.
	AMRECO	<p>ERC to re-evaluate the forecasted and historical kWh sale that is being used in the computation of the average rate in the proposed formula. The reason behind is the apprehension that the generation cost might increase within the period of the implementation in which the ECs has no working capital or unavailable funds to subsidize the cost or increase of the ECs. We are raising this as it set the mood of the day's discussion. We point out though that this is delve in details in the following presentation.</p> <p>It is also moved that the ERC issue and implement, before these sets of rules are finally adopted, a guideline on a consolidated one (1) time filing of rates under/over-recoveries for past periods not covered by this new rules on consolidation in consideration of the following:</p> <ol style="list-style-type: none"> 1. To mitigate the impact of a projected increase of rates in the 1st year of imposition of annual generation and transmission rates; 2. For a timely evaluation and imposition of recoveries for prior periods, as appropriate; and 3. To provide a basis for recognition of a liability (over-recovery) or receivable (under-recovery) for fair presentation of financial statements. 	

	SORECO II	<p>The existing ERC guidelines for the automatic adjustment of generation rates and systems loss rates (AGRA) and the Guideline for the calculation of the over or under recovery in the implementation of Lifeline rates, allow DUs to implement any over or under recoveries on a monthly basis. However, with the draft rules on consolidated annual filing by DUs for the recovery of various pass through costs, DUs will shoulder any rate adjustment.</p> <p>The consolidated annual filing by DUs for the recovery of various pass through costs would be very disadvantageous to the Coop who does not have enough fund to shoulder any additional cash outflow.</p> <p>SORECO II records show that lifeline rate discounts availed by the lifeliners are higher than the lifeline rate subsidy charged to non-lifeliners thus affecting our cashflow.</p>	
	PELCO II	<p>PELCO II realized underrecoveries on the implementation of its unbundled rates specifically on the transmission charges. Records will show that in Region 3, PELCO II has the lowest transmission rates pegged at the following amount:</p> <ul style="list-style-type: none"> > First year of implementation December 2004 to November 2005 - P0.7713 > 2nd year of implementation - December 2005 to April 2006 - P0.8752 <p>The actual transmission rate of TRANSCO covering the above period averaged P 1.00/kWh. The difference in rate represented the underrecoveries from this particular charges.</p> <p>The P0.7713 and P0.8752 were computed based on our historical year 2000 power purchased from NAPOCOR and Angeles Power, Inc. (API). During this period, NAPOCOR accounted 80 % and API at 20 % of our power requirement.</p> <p>The transmission rate incorporated in our unbundled rate was computed based on estimated power purchased from NPC at 80 %. This is the main reason of our very low transmission charges before the TRAM implementation.</p>	

		<p>➤ Will this consolidated annual filing allow us to recover the total underrecoveries from this charges from the time of implementation of the unbundled rates?</p>	
	CASURECO IV	<p>When the annual filing is already implemented by the commission, what will happen to the Lifeline Adjustments (Under-recoveries) of CASURECO IV amounted to total of PhP. 3, 967,535.28 from period November 2004 to May 2006 and which already been submitted to commission but until now there's no reply nor confirmation given?</p> <p>From the time CASURECO IV started to compute for the Monthly Lifeline Rate Adjustment, the result is always an under-recovery of an average amount of PhP 278,000.00. If the commission will modify the monthly to an annual computation, CASURECO IV will have to shoulder the said under recoveries for a year and this will be a burden for a DU like CASURECO IV.</p>	
	PELCO 1	<p>There must be standard rate for the factors being considered for every groupings. The actual distribution costs and distribution lines (length) energized by ECs depend on its sources of funds and operational performance in the past, hence, the data gathered are not realistic or do not reflect the standard costs or costs needed to maintain and operate its distribution lines or even rehab or energize new lines due to its limited funds.</p> <p>For uniformity of the DUs in the application of over and under recoveries please specify exactly the Current Transmission Rate, is it a month before the test period or a month after the test period.</p>	
	TARELCO II	<p>Please reconsider the exclusion of International Broadcasting Bureau (IBB) in the computation of system loss rate since it is directly connected to NPC and NPC rate is also being charged to it.</p>	