

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO'S POSITION
<p>VECO: The last sentence of Section 2.5 states that "To the extent possible. TransCo shall treat all Subtransmission Assets covered by the ERC Order as Connection Assets." This is contrary to EPIRA which requires TransCo to sell its subtransmission assets to distribution utilities (DUs). The Connection Charging Policy clearly tries to circumvent the EPIRA by reclassifying subtransmission assets as connection assets. In a truer sense, connection assets are part of subtransmission and must therefore be included when TransCo disposes its subtransmission assets to DUs.</p>	<p>We disagree with VECO's contention that the adoption of the Connection Charging Policy counters the EPIRA provision pertaining to TransCo's divestment of its subtransmission assets to qualified DUs.</p> <p>We emphasize that there is no intention on the part of TransCo to circumvent the EPIRA as regards the adoption of the Connection Charging Policy. TransCo shall continue to dispose its subtransmission facilities to all qualified distribution utilities as long as TransCo is allowed by law. If approved by the Commission, these connection assets can also be acquired by distribution utilities. Maintenance and operations, though, maybe performed by TransCo for a minimum charge.</p> <p>TransCo maintains that it does not have a monopoly in terms of connection facilities. TransCo believes that these facilities maybe owned and constructed by the DUs or even interested private businesses. The adoption of the policy will even encourage industry participants to provide their own connection facilities requirement; and this, in effect, will mean by-passing the connection charges of TransCo.</p> <p>It is worth noting, however, that most of the connection points are in TransCo's subtransmission assets. Also, in the case of DUs and industrial customers that have their own connection facilities, the law does not prevent them from labeling them subtransmission assets, primary distribution, or any other classification.</p> <p>Also, TransCo would like to emphasize, that the adoption of the Connection Charges is for the purpose of unbundling further TransCo's single power</p>

TRANSCO’S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO’S POSITION
	<p>delivery service charge as provided and approved by the Commission in TransCo’s 2004 OATS Rules. Moreover, the process will remove cross subsidies and uneven application of subtransmission charges to customers who already own part or majority of the subtransmission assets. (Ex. Those who own the feeder lines from, but not the substation transformer of TransCo, pay the same rate as those connected to the same transformer through feeders also owned by TransCo.)</p> <p>Lastly, we recognize that there will be subtransmission assets that will remain in the auction block and, still, a portion of these assets will remain because they perform grid functions. As such, these assets will form part of the connection charges.</p>
<p>VECO: Connection charges should be applied only to new customers wherein additional assets have to be acquired to connect such customers. For existing customers, there should be no connection charges. The connection assets in which Transco tries to capitalize on are already taken into account by ERC when it made its decision on NPC/TransCo’s unbundling of rates.</p>	<p>We would like to highlight that the policy is in support of the EPIRA most particularly Section 36 on the Unbundling of Rates and Functions, Rule 15 of the Rules and Regulations Implementing the Act, Rule 10 on the Procedures for Structural Unbundling of Business Activities. Simply put, this policy will further unbundle the present single power delivery service charge of TransCo.</p> <p>We do not want to discriminate in applying this/these charge/s from presently connected customers to new customers. As you are aware, “grandfathering” of rights/charges is discriminatory. However, if ordered by the Commission, TransCo will have to abide by such a policy for new customers. We believe that this connection business can be provided by any other business entities (perhaps even at a lower cost) other than the transmission provider (TransCo).</p>

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO'S POSITION
	<p>In other jurisdictions, connection charges are being paid by both generators and load customers; existing connected customers and new connections.</p> <ul style="list-style-type: none">• England and Wales (NGC) – Generators and load pay shallow costs. NGC levies site-specific connection charges for assets installed solely for the use of a single user or a specified group of users. However, new users pay a rental charge to the existing user of the shared asset.• Germany (RWE)– Generators and demand pay deep connection charges; including maintenance, renewal or operating costs arising in conjunction with the direct system connection.• Greece (PPC)- Generators and demand pay shallow connection costs and new users pay a rental charge to the existing user of the shared assets (similar to UK).• Italy (GRNT)– Generators and loads pay all the cost of connecting to the system. There are no refunds if another customer uses the facilities.• New Zealand (Trans Power) – Both generators and loads pay connection charges.• Spain (REE)– Producers and demand users make up-front payments for the capital costs of connection, including the costs of the required network reinforcements. New users (generators and demand) connecting to the same line extension within a period of 5 years will be responsible for a pro-rata payment of these costs, based on its relative use of the installed capacity. These payments will be used to reimburse the original contributor.• USA- PJM (PSEG)– Until now, generators and loads pay connection charges. They are allocated a share of the system upgrades cost. There are no refunds, however if a new project impacts a facility already identified as requiring an upgrade, cost responsibility may be

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO'S POSITION
	<p>assigned to the later project.</p> <ul style="list-style-type: none"> • Alberta, Canada (ATCO) – New generators bear full responsibility for their own interconnection cost while new loads share the cost of responsibility for interconnection costs with existing customers through the investment policy of the transmission administrator. Where, if a customer pays for a facility and AESO (Alberta) uses those facilities to serve other customers within 20years, AESO will adjust the original contribution and assess each of the new customer's contribution. • Ontario, Canada (Hydro One Network)- New generators and load pay shallow connection charges. The Connection and Cost Recovery Agreement is negotiated. Hydro One issues a refund or a rebate to the generator for subsequent generator connections. The refund to the initial generator is limited to a share of the amount recovered from the subsequent generator(s) connecting within five years. <p>The Unbundling decisions of the Commission in June and September 2002, were superseded by the promulgation of the Transmission Wheeling Rate Guidelines (TWRG) in May 2003 and the recently ERC-approved Rules, Terms and Conditions in the provision of the Open Access Transmission Service or OATS Rules. Under the OATS Rules (Module F – Rates, Methodology, Billing and Settlement), TransCo is authorized to bill a single power delivery service (PDS) charge to its customers. This PDS shall be inclusive of both the transmission and subtransmission charges of TransCo. In addition, Module F also provides a formula for the calculation and charging of the appropriate connection charge. And the adoption of the connection charging policy is well within the purview of the TWRG.</p> <p>The connection charge is designed to be customer specific. To say the least,</p>

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS

TRANSCO'S POSITION

the policy is even in accord with the intention of the EPIRA of removing cross subsidy. Given that connection points or the connection assets refer to services provided to specific customers or group of customers, the cost for the service provision should be borne by those directly benefiting from such services and not to be paid by the entire customer segment or the whole number of customer in a grid. Ideally, connection assets for VECO should be paid by VECO and not be subsidized by other customers in the Cebu area. More importantly, VECO should not be required to pay for the connection assets of other remote distribution utilities and non-utilities - who are right now being subsidized by large DUs like VECO.

Nothing in these guidelines prevents the sale of subtransmission assets. We admit, however, that the proposal may be used by some utilities to cherry pick on the purchase of subtransmission assets – something that TransCo intends to prevent by appropriate disposal guidelines.

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO'S POSITION
<p>ILPI: Connection Principles (Section 2.6)</p> <p>Customers referred to in this Connection Charging Policy shall only be limited to DUs, Generation Companies, IPPs and Electric Cooperatives so as to emphasize the Direct Connection of other Load Customers to TransCo is not allowed.</p>	<p>Section 2.6 defines Customer as Load and Generator Customer. This is consistent with the recently approved OATS Rules.</p>
<p>ILPI: Connection Principles (Section 2.10)</p> <p>Assets owned by Directly Connected Load Customers (both assets used to connect to the grid and the respective substation or switchyard where the connection assets are located) shall be acquired by TransCo and subsequently sold to the DU (franchisee), consistent with the Guidelines to the Sale and Transfer of TransCo's Subtransmission Assets that disallow direct connection of other Load Customer to TransCo.</p>	<p>As provided in Section 2.14, TransCo may assume responsibility over connection facilities turned over by customers subject to payment arrangement (operation and maintenance charges) between TransCo and the owner of the connection facilities.</p> <p>TransCo, in the process of divesting subtransmission facilities, does not acquire facilities and subsequently sell them to qualified DUs.</p>
<p>ILPI: Connection Principles (Section 2.13)</p> <p>What do you mean about last mile connections?</p> <p>In the event that the customer will pay for all connection assets in relation to the last mile connection. There should be a mechanism to allow the customers recover its cost incurred of the said assets, be it in the form of refund or the said assets will automatically form part of the asset base of that customer, say (<i>part not readable</i>).</p>	<p>Last mile connection refers to the facilities that will bridge the gap between TransCo's facility nearest to the Customer and the Customer's facility nearest to TransCo.</p> <p>In cases of last mile connections, the connection charges will only apply to the cost of operating and maintaining the facilities. Recovery adjustment mechanism will no longer apply because the Customer will be able to recover the cost of construction through the increase in their rate base.</p>

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO'S POSITION
<p>ILPI: Connection Principles (Section 2.16.1)</p> <p>The Philippine Grid Code, specifically Section 5.5 (Requirements for Distributors and Grid User) emphasizes the responsibility of the Distributor to install a circuit breaker of the connection point and disconnect switches to isolate the circuit breaker for maintenance purposes. However the above equipment were listed on the List of Equipment in Diagram 4 and Diagram 5 under the outgoing feeder, does this mean that the DU will buy the connection asset pertaining to the Outgoing Feeder Circuit or will install another set of equipment in compliance to the Grid Code?</p>	<p>For existing customers, the identified equipment in Section 5.5.1.2 are owned and already installed by TransCo. As such, we assume compliance with the Grid Code with respect to Section 5.5.1. The only contentious issue is the ownership. We believe that the Grid Management Committee will be in the best position to decide whether the said equipment must be owned by the existing Grid User.</p> <p>For connecting customers, we require them to secure a Facility Study before any equipment is installed. As such, the Grid User has the option to put to up the identified connection assets in Section 5.5.1.2 or have TransCo invest in the facilities. This, of course, will be subject to payment of appropriate connection charges.</p> <p>In both cases, TransCo will assume control over the facilities so as to preserve the integrity of the Grid.</p>
<p>ILPI: Connection Principles (Section 2.23)</p> <p>Article V, Section 5 of the Guidelines to the Sale of and Transfer of TransCo's Sub Transmission Assets and the Franchising of Qualified Consortiums states X X X</p> <p>Does this not negate to Section 2.23, specifically the rate provided therein?</p> <p>In addition, there should be a thorough revaluation of sub transmission assets as to their relevance in the operation of</p>	<p>TransCo will cease billing the Sub-transmission Charges effective this November Billing Period. This is part of approved 2004 OATS Rules. As such, we reckon that the provision in the Guidelines already academic.</p> <p>We also recognize that, since the 2004 OATS Rules has been approve, we have to edit Section 2.23.</p> <p>Revaluation of the sub-transmission assets is included in the Initial Revaluation Report the will submit to the ERC as part of the Regulatory Reset.</p>

TRANSCO'S POSITION: COMMENTS ON THE CONNECTION CHARGING POLICY

INDUSTRY PARTICIPANTS	TRANSCO'S POSITION
the sub transmission system.	
<p>ILPI: Calculation of Basic Connection Charges (Section 3.2)</p> <p>It is recommended that the valuation of the replacement cost of the connection assets shall be made by an independent expert with an expertise consistent to what is specified in Article XIV of the TWRG.</p>	<p>Agree.</p>
<p>ILPI: Asset Replacement (Section 6.1)</p> <p>Reasonable opinion is a general statement, can you elaborate further, or at least give scenarios or set of parameters that will qualify the replacement of connection assets before it can reach its replacement period to avoid indiscriminate replacement of assets.</p>	<p>This Connection Charging Policy already serves as a disincentive for TransCo to not engage in indiscriminate replacement of assets. Unnecessary replacement of assets will not increase the applicable connection charges. As such, we will not be able to recover the cost of the replacement. Also, the customer knows when the connection asset will be due for replacement.</p> <p>By reasonable opinion, we reserve the right to exercise our prudent judgment when it comes to what comprise good utility practice. And in the case of the replacement of connection equipment, should TransCo suspect that a particular equipment poses a threat to the integrity of the Grid, TransCo will exercise its full mandate.</p>