



**CAGAYAN ELECTRIC POWER  
& LIGHT COMPANY, INC.**

20 February 2003

**ENERGY REGULATORY COMMISSION**  
Pacific Center Building  
San Miguel Avenue, Ortigas Center  
1600, Pasig City, Metro Manila  
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Attention: Atty. Marina C. Bugayong  
Regulatory Operations Service

Subject: **COMMENTS ON DRAFT BUSINESS SEPARATION GUIDELINE**

Dear Atty. Bugayong,

In the attachment are our comments and questions on the draft Business Separation Guideline. This is also being sent to you by e-mail.

Thank you for considering our viewpoint on some of the issues. We look forward to the clarification of our questions either through the ERC website or during the hearing.

Truly yours,

David A. Tauli  
Sr. Vice President

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Cagayan Electric Power & Light Co., Inc (CEPALCO)  
COMMENTS AND QUESTIONS ON THE DRAFT BUSINESS SEPARATION  
GUIDELINE

- (1) Are the Business Segments other than Distribution Services (e.g., Connections, Metering, Billing and Collection) to be regulated by the ERC if done by entities other than the franchised distribution utility? And if not regulated, can a company affiliated with the distribution utility provide these services for the distribution utility, assuming that the charges and fees are competitive? Alternately, can the distribution utilities obtain these services from independent service providers, with the regulation coming in the form of caps for the charges for such services?
- (2) Is it correct to say that after approval of the Business Separation and Unbundling Plan of the distribution utility, the distribution utilities will have to submit to the ERC revised unbundled rates that will separate, for example, the billing and collection charges from the distribution services rates? Will separate rates be required also for the sub-segments (under each business segment such as Distribution Services) of the distribution utilities?
- (3) In Sec 2.2.1 each industry participant is required to submit to ERC an Accounting and Cost Allocation Manual (ACAM). We suggest that the ERC provide guidelines for the preparation of the ACAM by the distribution utilities in order that there can be substantial uniformity in the Manuals of the different utilities. Uniformity of the ACAM would make possible benchmarking of the performance of the utilities.
- (4) In Sec 2.12, the timetable for the accomplishment and submission of all the documents (which is within 4 months) may not be sufficient. As experienced, the audited financial statements for the bundled utility services are available at the end of April. It would take a longer time when separate accounts are required for each business segment. We suggest the retention of the prevailing submission date for the annual reports to the ERC, which is the end of May of each year.
- (5) Will the solar panels owned by the distribution utilities be classified as Distribution Services assets (under the ancillary services sub-segment) or as generation assets? Will capacitor equipment be placed under distribution services or ancillary services?
- (6) We understand that assets for the Connection Services segment of distribution utilities (Sec 4.4.6) would consist of the service drops (from point of connection to low-voltage lines to point of connection to customer-owned facilities) in the case of customers connected the secondary or low-voltage lines, and the dedicated wires and equipment, including HV disconnect switches, that connect customers to the high-voltage system. Is this correct?

(7) Is it correct to assume that “Related Businesses” of distribution utilities (Sec 4.4.14) include businesses that do not use distribution assets (but use distribution utility staff), such as meter reading and billing for water or for other distribution utilities, and sale or maintenance of security lights, security systems, or electric appliances?

(8) Is it correct to assume that the term “energy trading” (as used in Sec 4, for example) includes purchase of electricity through bilateral contracts, and is not restricted to transactions in the WESM?

(9) Does Sec 5.2.1 require the distribution utility to keep on file a written consent from all its customers in the Contestable Market for the use by the utility of information relating to the customer in connection with the sale or offering for sale of electricity to the customer? It should be noted that in selling electricity to the customer, it is necessary to use information about the customer.

(10) In Sec 5.7, any brand name (other than its own name) used by a distribution utility in selling to the contestable market will be eventually connected to, and identified with, the distribution utility. What is the purpose of requiring that a brand name or logo not be used which will suggest a connection with the distribution utility? We point out that brand names may significantly influence customer choice in the developed electricity markets, but brand names are probably insignificant in the determination of customer choice in the Philippine electricity market. If so, then this concern about brand names is an unnecessary complication.

(11) Is the Cash Flow Statement Form for distribution utilities (in page 60 of the Guideline) to be submitted only for the distribution utility as a whole, and not for each Business Segment and Sub-segment of the distribution utility?