

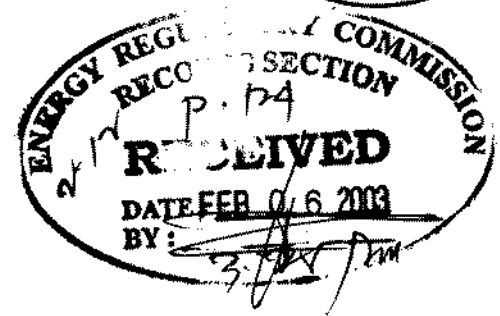
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06 February 2003

ENERGY REGULATORY COMMISSION
16TH Flr., Pacific Center Building
San Miguel Avenue, Ortigas
Pasig City



ERC Case No. 2003-34

Gentlemen:

COMMENTS ON GUIDELINES FOR WHEELING RATES

Thank you for furnishing us copies of the proposed Guidelines on the Methodology for Setting Transmission Wheeling Rates for 2003-2007 and for the opportunity to give our comments thereon.

General Comments

A performance-based methodology of rate setting is preferable to the existing Return on Rate Base (RORB) methodology. However, since it is a new concept that will affect all electricity users, we feel that the three-day hearing set by ERC may be inadequate to comply with the "due notice" requirement for laws and ordinances. The Guidelines are too complicated, containing as it does, technical formulae that only electrical engineers can fathom. The process would need an educational phase and for this reason, we suggest that the first day of the hearing (February 19, 2003) be exclusively devoted to that phase. It may extend even to the second day and we propose that it be held in a larger forum than the ERC session hall, with the support of hardware, (projectors, power point presentation, sound system, etc.) and simulations to show the comparative advantages over the existing RORB methodology. The third day can be devoted to discussion and comments.

Specific Comments

- (1) In a performance-based rate setting, efficiency in the performance and utilization of assets should be underscored. Since, both transmission and utilization (consumers) sectors can contribute to such efficiency, a reward/penalty system should be devised for both sectors.

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- (2) The Postage Stamp methodology presently used in pricing transmission service runs counter to the mandate of EPIRA to restructure rates on the basis of true costs in rendering the service, as well as, the mandate to eliminate subsidies. The Postage Stamp method of setting a uniform rate regardless of distance makes the customer (power user) nearest the source of power, bear the cost of service to the distant power customer. Note that distance involves capital cost and line losses. We therefore propose the inclusion of a provision revoking expressly the Postage Stamp methodology and adoption of a distance related one.

We reserve the right to offer additional comments during and after the hearings set for the purpose.

Very truly yours,



RICARDO P. GUEVARA
Chairman