

NAPOCOR INDUSTRIAL CONSUMERS ASSOCIATION, INC.

c/o Ground Floor, Alegria Bldg. 2229 Don Chino Roces Ave. Makati City

February 5, 2003

ENERGY REGULATORY COMMISSION

Pacific Center Bldg.

San Miguel Ave., Ortigas Center, Pasig City

Attention: Atty. Marina C. Bugayong

Subject: **Adoption of an Alternative Form of
Rate-setting Methodology For TRANSCO**

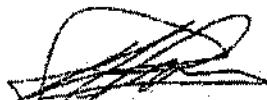
Dear Atty. Bugayong:

Hereunder are our initial comments on the subject, which we hope will be given due consideration by the honorable Commission :

1. Transmission charges should reflect closer the true cost of providing such service by taking into consideration distance or length of transmission lines used in the transmission of power from one point to another. This can be captured in a method called "nodal" or "zonal" pricing. With nodal pricing, nodal points or nodes are identified and designated in the transmission system, wherein the charges are computed based on node-to-node service. In a similar manner, with zonal pricing, the transmission system is divided into zones, wherein transmission lines in a contiguous area are lumped together to form zones. In this case, pricing is based on zone-to-zone service.
2. The utility's income tax as an expense that can be passed on to the consumers is, we believe, not in order. We fully agree with the recent Supreme Court ruling that income tax should be borne by the income earner and in this case, the stockholders of the utility and not the consumers.
3. In view of the transition from a government bureaucracy to private management, there should be standard parameters for efficiency to be followed by the transmission provider that is comparable with those utilities in deregulated markets like New Zealand, Great Britain or Argentina.

We intend to participate actively in any consultation or deliberation on the subject.
Thank you.

Very truly yours,

**ROBERT F. MALLILLIN**